AFDC QUALITY CONTROL PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION

OF THE

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HOUSE OF REPRESENTATIVES

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AFDC QUALITY CONTROL PROGRAM

WEDNESDAY, OCTOBER 3, 1984

House of Representatives,
Committee and Ways and Means,
Subcommittee on Public Assistance
and Unemployment Compensation,
Washington, DC.

The subcommittee met 2 p.m., pursuant to notice, in room B-318, Rayburn House Office Building, Hon. Harold Ford (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

[For immediate release, Tuesday, Sept. 25, 1984]

Hon. Harold Ford (D., Tenn.), Chairman, Subcommittee on Public Assistance and Unemployment Compensation, Committee on Ways and Means, U.S. House of Representatives, Announces a Hearing on the AFDC Quality Control Program

The Honorable Harold Ford (D., Tenn.), Chairman of the Subcommittee on Public Assistance and Unemployment Compensation, Committee on Ways and Means, U.S. House of Representatives today announced a hearing on the Aid to Families with Dependent Children (AFDC) quality control program and H.R. 6295, a bill introduced by Congressman Robert T. Matsui (D., Calif.), which would reform the quality control system. The hearing will be held on Wednesday, October 3, 1984, beginning at 9:30 a.m.,[1] in room B-318 Rayburn House Office Building.

In announcing the hearing, Chairman Ford said, "I continue to be concerned about the current quality control and fiscal sanctions policies and the degree to which they may be contributing to the decline in the purchasing power of AFDC benefits. The Administration has estimated that $1.3 billion in error rate penalties will be collected from States for FY 1981-89. Clearly, a loss of over a billion dollars in Federal funds will have an adverse effect on recipients. Before States are assessed these penalties, we must be sure that the quality control system is fair and accurate. I am pleased that Congressman Matsui has introduced a bill, H.R. 6295, which suggests ways to improve the current system. I look forward to a fuller discussion of the legislation at the hearing."

Testimony will be received from invited witnesses only. Witnesses will be asked to discuss the current quality control system, any improvements that are needed, and to comment on H.R. 6295. A summary of H.R. 6295 is available from the Subcommittee, in room B-317 Rayburn House Office Building, (202) 225-1025.

WRITTEN STATEMENTS SUBMITTED FOR THE RECORD

All other interested parties wishing to submit a written statement for inclusion in the record of the hearing are encouraged to do so. Persons submitting written statements should submit at least six (6) copies of their statements by close of business Friday, October 12, 1984, to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515.

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[1] The time was subsequently changed to 2 p.m.

Chairman **Ford**. The Subcommittee on Public Assistance and Unemployment Compensation will come to order.

The subject of today's hearing is the AFDC quality control program and fiscal sanctions. The last thorough examination of the quality control system by the Subcommittee on Public Assistance and Unemployment Compensation occurred at hearings held in June 1978. Since that time, there have been various attempts to penalize States for excessive error rates. Under the so-called Michel amendment, States were required to reach a 4-percent error rate by fiscal year 1983. The Tax Equity and Fiscal Responsibility Act lowers this standard to 3 percent beginning in fiscal year 1984.

Both of these policies assume States will pay fiscal penalties for high error rates. But neither of them took the necessary step of first assuring that errors are measured correctly and quickly. Today, we will take a closer look at our quality control policies and begin to collect the information we need to be certain that the system is fair and equitable.

State agencies manage the AFDC program in partnership with the Federal Government. States also share in the costs of this program—both for benefits and administration—a fact which creates every incentive for good management. We expect our AFDC administrators to make AFDC payments only to families who are eligible for AFDC and to do so on time, in the correct amount, and with the privacy of these families protected. We further require that State and local agencies operating the AFDC program make diligent efforts to identify and eliminate fraud, waste and abuse in our Nation's welfare programs. Significant Federal and State resources are devoted to this effort. I mention these expectations to underscore that sound management is a high priority in the AFDC program.

A quick look at the error rate numbers would perplex even the most knowledgeable statistician. Although the national error rate has declined steadily from a high of 16.5 percent in 1973 to 7.7 percent in fiscal year 1981, there is considerable variation among the States. There are many plausible explanations for these variations and I understand that HHS has studied the subject in some detail. Unfortunately, the results have not been shared with the Congress. In fact, in reading the record of our 1978 hearing, I learned that HHS had just begun an 18-month study of the AFDC error rate.

The study was designed to shed some light on the degree to which factors beyond a State's control—such as program complexity, urbanization and a large number of working AFDC recipients—naturally contributed to a higher error rate. It is now October 1984 and the 18-month study remains unpublished by the Department. Today, I hope the administration will tell us about these and other studies which can help us to understand the error rate and what needs to be done to improve it.

What we do know is that AFDC is a complicated program, ever changing and full of options. In the past 3 years, comprehensive reforms have been made in AFDC. Unemployment and the recession have resulted in increased caseloads, particularly in States that aid two-parent families. Federal and State dollars, especially for administration, have declined. Common sense tells me that these factors will increase a State's error rate. Of course we expect solid administration from our State and local welfare officials but we must also recognize that in the ever changing environment of the AFDC program some errors will occur and we cannot afford the huge financial investment that would be needed to eliminate them all.

The quality control issue has been with us for some time but it is no longer a technical issue of little consequence. Over the next 5 years, the quality control system and any fiscal sanctions collected from the States may have a devastating affect on AFDC recipients. The administration projects that $1.3 billion will be collected from States for error rate sanctions. If States are unable to offset this loss of Federal funds, significant reductions in already inadequate AFDC benefits could occur. Today, we began an examination of the quality control system and the changes needed—before sanctions are taken—to improve its accuracy, efficiency and fairness.

It is no surprise to me that these same principles are central to H.R. 6295, the quality control reform bill introduced by my distinguished colleague on the subcommittee, Congressman Bob Matsui. I want to express my thanks to him for introducing a bill for discussion which addresses so many of the issues we wrestled with during this year's Deficit Reduction Act and our proposed moratorium on penalty collections. A full discussion of this legislation is clearly warranted and I look forward to our session today.

Mr. MATSUI. Thank you, Mr. Chairman.

Chairman FORD. At this time, Mr. Matsui, you are recognized for any opening statements or remarks you would have at this time.

Mr. MATSUI. Thank you very much, Mr. Chairman. I would like to thank you for calling this hearing to examine the serious shortcomings of the AFDC Quality Control Program. I would also like to welcome all of the expert witnesses today from the Federal, State and local levels of government particularly our former colleague, Governor Blanchard. Insights they have gained on their day-to-day experience with the quality control system will assist us in better identifying and correcting the program's flaws.

Over the years the Federal Government has devised quality control guidelines to ensure that States reduce AFDC Program errors and pay the right amount of benefits to eligible recipients. Our efforts have indeed paid off. From fiscal year 1973 through the first half of fiscal year 1982, States have nearly halved the average AFDC error rate from 16.5 to 7.3 percent.

As a result of several legislative changes over the past 4 years, many States have been threatened, however, with sizable fiscal penalties for exceeding Federal standards set by the Federal Government on the AFDC errors. I am concerned that the magnitude of these penalties, over $1.3 billion for fiscal years 1981 through 1989, may jeopardize the steady performance in error reduction that has occurred. Many States must absorb them through administrative costs resulting in higher rates of error or passing them on to recipients through reduced or restricted benefits.

Without exception, States must adhere to some form of quality control standards. To be effective, such a system must be timely, applied fairly and be cost effective. Our present system, in my opinion, does not accomplish these goals. For example, under the current systems, States do not receive information on errors they commit in enough time to make corrections or recoveries. Remember, States have only received information relating to their fiscal year 1981 error rates. Further, there is insufficient coordination and cooperation between the States and the Department of Health and Human Services in developing and reaching agreements on the appropriate corrective actions that should be taken in relation to errors identified in the sample.

Another major flaw in the current system is that it penalizes those States that in previous years have made the greatest effort and have had the most success in reducing the error rates. For example, the State of Alaska with an error rate of 18.1 percent in fiscal year 1981, faces no error rate penalty and no reduction in AFDC Federal matching funds. Minnesota however, with a much lower eror rate of 4.5 percent, faces the loss of $651,000 AFDC funds and my home State of California, which has an error rate of 6.8 percent faces a $35 million penalty.

The current system also appears to overstate the actual AFDC error rate. Questionable statistical procedures are used to develop the error rates, and States are penalized for client errors over which they have very limited control.

In addition, AFDC cases that are counted as errors do not always involve misspent AFDC funds. If a family member's Social Security number is not recorded in the case file or if an individual has not registered for WIN, it is counted as an error despite the fact that all other information relevant to the family's eligibility and monthly payment is in the file and accurate. While these individuals remain eligible for AFDC, technical errors such as those mentioned may cause the payments to be counted as an error.

The current system also fails to take into account economic conditions as well as significant geographic and program differences among the States that contribute to errors in ways largely beyond the control of the States themselves. An unpublished HHS study shows that such outside factors as greater population density, higher crime rates, the size of the local population and size of welfare agencies' caseloads contribute significantly to higher error rates. Despite these findings, HHS makes no effort to consider these factors when determining a State's error liability.

We have introduced this legislation, H.R. 6295, in order to raise this matter as an issue and bring it into public debate. We certainly don't feel that our legislation is necessarily the answer to all of the problems we have expressed. But we hope it is a starting point so that we can come up with a solution acceptable to all three levels of government.

Let me conclude, Mr. Chairman, with the fact that under current law, the error rate must be reduced to 3 percent or less. It is my feeling that if, in fact, this should be the standard for social programs, we certainly should demand the same kind of standards for other parts of the Federal budget. This would include the Pentagon and military budgets as well.

With that, Mr. Chairman, I again would like to thank you for calling this hearing and bringing this matter to the public attention. I look forward to working with you and other members of the committee.

Chairman FORD. Thank you, Mr. Matsui.

[Mr. Campbell submitted the following opening statement:]

Opening Statement of Hon. Carroll A. Campbell, Jr., a Representative in Congress From the State of South Carolina

I would like to thank the Chairman for holding these hearings on quality control. I especially want to welcome JoAnne Ross, Associate Commissioner for Family Assistance of the Social Security Administration and look forward to hearing her statement.

Year after year we have heard from states concerning difficulties with the system for measuring erroneous AFDC payments. During my tenure on the Ways and Means Committee we have dealt with substantial changes in statute concerning the AFDC error rate system in the Omnibus Budget Reconciliation Act of 1981, the Tax Equity and Fiscal Responsibility Act of 1982 and the Deficit Reduction Act of 1984.

I, therefore, welcome this opportunity to hear from the Administration and state officials on this subject so that a thoughtful approach can be taken to the current quality control program while we are not under the pressures and time constraints of a legislative deadline.

Chairman FORD. The committee will call its first witness, the Honorable James Blanchard, Governor of Michigan and very distinguished former Member of the Congress and now very distinguished Governor of the State of Michigan. You are recognized at this time, Governor.

STATEMENT OF HON. JAMES J. BLANCHARD, GOVERNOR OF THE STATE OF MICHIGAN, ACCOMPANIED BY JANE SNOWDEN, MICHIGAN DEPARTMENT OF SOCIAL SERVICES

Governor BLANCHARD. Thank you very much, Mr. Chairman, Congressman Ford and Congressman Matsui, my former colleagues. I am delighted and pleased. I want to make sure you have the sound system so you can hear me. I am pleased with this opportunity to appear before your subcommittee to discuss our most pressing concerns regarding the quality control system in the AFDC Program.

As a former Member of Congress, I not only have a high regard for the kind of power you wield over these important decisions, but I also can recall the debate on this issue, this general issue of welfare fraud, abuse, error, quality control, however you want to discuss it. But I think as Governor of Michigan, I have also gained a perspective that I hope will be useful during your consideration of the whole AFDC quality control system.

I might add that in June, 41 Governors—clearly a bipartisan collection of Governors—wrote the chairman of the full committee expressing their concern about the quality control system, its unfairness and its lack of comparability for bringing about greater welfare efficiency and fairness.

I am not speaking for all the Governors today, but I think you might want to make that letter part of the subcommittee's record. We could provide you with a copy of it. Also I know that the National Governors' Association has submitted written testimony, and I doubt it will vary much from what I am going to say. This is a problem that concerns almost all the Governors throughout the country.

Indeed, I think Michigan's problems are probably less severe than some of those of other States that have already been slapped with sanctions. But it is an issue I commend you for grappling with, because I think you will be doing both a great service to the system and also for cooperation between the States and the Federal Government.

Mr. Chairman, I know your efforts to seek some relief for the States during this session has been considerable. I want to commend you. Your subcommittee, in its responsiveness, has clearly made possible a more deliberate and constructive discussion of what is a very complex matter. I have some Michigan officials with me in case we get too technical, because it really is complicated.

I also want to commend Congressman Matsui for the bill that he has introduced. His proposals are a comprehensive attempt to address the very difficult policy and technical problems associated with the whole quality control program.

Let me say at the outset that improper administration of the AFDC Program is intolerable, as is welfare fraud, abuse, or mispayment. I must suggest that the quality control program addresses that only to a limited degree. The quality control program is really more a compliance with Federal bureaucratic standards and far less an attempt to find fraud and abuse.

Obviously, our use of public funds requires every effort to satisfy our public trust for serving eligible citizens properly. This has become even more essential as the available amount of those public funds has clearly diminished. And you are going to find that even a greater problem, as you know, in the next Congress in dealing with the huge Federal deficit.

But, in regards to proper administration of the AFDC Program, I wanted you to know that I am in full support of your quality control practices that are fair and reasonable and I am dedicated to continuing to work with you in improving the control of errors that result in mispayment, fraud, or abuse.

That the States have diligently sought and found improved administrative practices is evidenced by the steadily declining error rates of the past 10 years that you quoted. Between fiscal year 1973 and the first half of fiscal year 1980, the national AFDC error rate, by our calculations, was more than halved dropping from about 16.5 percent to 7.3 percent. Since 1980, however, error rates have remained relatively constant despite our best efforts, as the States have been called upon to implement the massive policy changes contained in all the various different reconciliation and tax bills that have complicated this whole question.

The Social Security Act provides for a Federal/State partnership to serve families with dependent children. For more than a decade, Congress, the Federal Executive Office, and the States have been engaged in a sometimes very emotional, even rancorous debate regarding AFDC errors and potential fiscal sanctions. There is much, however, that suggests this ongoing debate is not about errors at all; rather it is really directed at the issue of which level of government should be responsible for the poor.

From one point of view, the quality control program can be viewed as nothing, but a revenue-generating program for the Federal Government. It has nothing to do with fraud, abuse, or fairness of the system. In fact, I noticed the Congressional Budget Office put out the fact that the Federal Government is counting on almost a billion dollars of sanctions by 1987 as part of the way to meet its revenue projections.

One example of this is when error rates are discussed, they are almost interchangeably used to imply misspent Federal funds. You are mindful, of course, that our partnership provides for sharing the costs of the program, and errors affect our State budgets just as they affect you. In Michigan, we pay for 50 percent of the AFDC Program, about half a billion dollars, and we have every reason to see that wisely and intelligently spent.

I think the chief executives in all the States have this problem—they already have all the incentive they need to ensure dollars are spent wisely and not lost through fraud and abuse. Some weeks ago, as I said, our fellow—my fellow Governors sent a communique to you and to Chairman Rostenkowski with respect to the whole quality control program. Forty States in the United States of America have already been notified of fiscal sanctions in the AFDC, Food Stamp, and Medicaid Programs for fiscal year 1981.

While my State of Michigan is not one of the States under notice, I am aware that our potential for liability is certainly very real in future notices. We think the administration has seriously delayed notification to the States on the findings for fiscal years 1982 and 1983. Even so, the administration proposes to collect for these past years and through 1987. We are talking about at least, the last time we calculated it, a staggering amount of $990 million from States in the AFDC Program alone.

I think the Governors seriously question whether quality performance can continue even at today's level, given such a dramatic withdrawal of Federal participation. I realize that this committee has no responsibility for the Food Stamp and Medicaid Programs, but I do and so do our other Governors, our other human services departments. More importantly, at the operational level all three of these programs are implemented by the same workers in the field.

I am sure that is the case in Tennessee, California, Massachusetts, and Texas. To the extent that Government imposes conflicting and constantly changing regulations on workers who are struggling desperately to keep up with constantly growing caseloads, Government itself is the cause of confusion and therefore a cause of the error problem. Let me give you just one example.

Your committee, I think wisely, Mr. Chairman, with your efforts, authored legislation which provides for a $50 exclusion of child support received by AFDC recipients. While I think the intent of this policy is clearly to help the needy, and also not to punish one who is trying to support a family by conscientious payments, I must point out that the $50 disregarded for AFDC purposes must be included in the family's budget for the Food Stamp Program. So workers must treat the same income differently with the same client, probably on the same day, causing an awful lot of mistakes and errors that have nothing to do with the worthiness of the recipient at all.

During my own personal review of the issues surrounding quality control, I have been dismayed to discover the lack of simple and very basic management principles in the federally mandated quality control system. An example is the case of so-called technical errors, which is what we are really talking about. And I think the legislation is directed at separating these from the real abuse of the system. For example, I found it inconceivable that States that have been severely strapped financially throughout this recession would be held fiscally liable and lose critically needed funds for errors that involve no actual mispayment to recipients.

That, to me, smacks of nothing more than a hidden tax on States. And I might add, States with error rates are generally going to be the ones with huge caseloads. For example, our caseload skyrocketed in 1982–83 in the depths of this most serious recent recession. Given the crisis mode in administering AFDC in States with a lot of unemployment, I am sure you can understand our reluctance to devote limited administrative dollars to correct errors that have no fiscal consequence or are not directed at preventing misstatement or fraud.

As Governor of Michigan, my highest priority has been economic development and job creation. As part of that effort, we have attempted to increase the number of AFDC recipients required to participate in employment, education, and training programs. While Federal law exempts parents with children under 6 years from participation in such programs, we have obtained a waiver to require participation when the youngest child is 6 months old.

However, unless a signed registration form is in the case file when the child turns 6 months, a quality control auditor must find the person ineligible; therefore, in error. Because we are dealing with 85,000 cases with children between 6 months and 6 years, there were cases for which no signed registration was obtained and those count in our error rate. What that means is, because we have tried to move people into employment training, we found that we also increased our technical errors, meaning it would increase our fiscal sanctions.

Let me also point out that we in Michigan have had a number of unique, we think, and very successful job-creating efforts. I am very proud that our Michigan Youth Corps, the largest operation, in my first year in office put 25,000 young people to work all around our State parks and beaches. A new program we have called Job Fare is a pilot program putting to work people who have chronically been on welfare. We train them and put them in community service work. Then we move them out into the private sector, where they can get a real world job with hope and opportunity.

Every one of these programs, I believe, is going to be hamstrung by this kind of technical reporting. I am very concerned that your quality control program will thwart our efforts to try to find work and opportunities and training for these people and therefore, punish States that are trying to get people off welfare and back to work. I am sure this is clearly the opposite intent of even the most hard-hearted conservative who voted for the Omnibus Reconciliation Act of 1981. That does not include either of the two of you, I might add, as I recall the mood and the vote at that time.

But some of your colleagues who are concerned about reducing welfare and keeping people working, I think, would be horrified to learn that the quality control program could thwart that. So we would like them to talk to some of our people because we have some very exciting programs. Of paramount concern to all Governors, all 41, I think is the fact that the current quality control system fails to recognize State-by-State differences. An example is the optional Unemployed Parent Program. Today, Michigan and 23 other States elect to serve unemployed parents.

During the recent recession, the AFDC-UP caseload in Michigan more than tripled from 13,000 cases in 1979 to 50,000 cases in 1983. At that time, Michigan accounted for almost 20 percent of all AFDC-UP cases nationwide. These are working men and women, most with substantial employment history, who have lost their jobs and exhausted their benefits through no fault of their own. But they have a much more complicated and substantial work experience, which does require a lot more information gathering by case workers. And the more information you gather, the more you are apt to have a greater number of technical errors.

Some of the AFDC-UP errors are also technical in nature. Last winter, an unemployed family in northern Michigan applied for AFDC. Because the case workers determined they were not eligible for unemployment benefits, the case was opened. However, a quality control auditor later ruled that the entire family was ineligible for AFDC-UP assistance because there was no record in the case file of an unemployment compensation application.

The problem was, while everyone knew they clearly didn't qualify for unemployment assistance, to have obtained a written verification of that would have required the family make an 80-mile round trip in the winter to an adjacent county so they could be officially told "no". I don't know if you know about Michigan winters. They are not the easiest to get around in.

But the quality control system would have required somebody to make that kind of trip for the fun of being told "no", which could have been determined on the site by the case worker anyway because they clearly didn't qualify for unemployment benefits. And there was no question on anybody's part that they were clearly ineligible for unemployment compensation. It was simply a technical error and would have been counted in your sampling as an error when it had nothing to do with whether they were deserving or not, and certainly nothing to do, I think, with the intent of Congress with this whole system.

And I believe that taking account of those conditions one of the goals of your legislation, Congressman Matsui, and is admirable. Lack of evidence about application for unemployment compensation accounts for nearly one-third of Michigan's current error rate. We have got enough bureaucracy with government as you all know. We hate to create it, but we have to put up with it. I hate to impose it in cases where it simply wouldn't save a dime. It works a hardship on people and in this case, works a hardship on States with serious unemployment problems.

We estimate that we in Michigan currently are at risk for potentially $8.5 million in sanctions for cases of this type, which I really think is really a runaround. Again, I am sure you share my feelings, but I am going to allow you to share my frustrations here, too, Mr. Chairman.

Following a massive study of quality control, the U.S. Department of Health and Human Services found that "States with unemployed parent programs or a large percentage of cases with earnings are also expected to have higher payment error rates * * *." This same draft report of August, 1982, concludes that

"* * * States with large, urban caseloads face more difficult problems in controlling payment error, even in the presence of comparable administrative resources." These findings, as well as other significant socioeconomic, geographic, and program differences in State programs, argue strongly for State-by-State tolerance levels rather than a national target.

I think others appearing before your committee today will address many of the technical issues associated with the quality control system. But I think, Mr. Chairman, you and my former colleagues, would be appalled to know the multitudes of people involved in disputes around sampling techniques, regression analysis, formulas, and the like.

What bothers me and is of greater concern here, is the more fundamental flaw: the whole system of quality control is really threatening to shift the cost from the Federal Government to the States and tragically is not being used effectively enough as a management technique. It is a revenue generating or punishment technique, not a management technique, which I think it ought to be, nor a broad finding technique that will serve a useful social purpose other than just transferring money.

Obviously it is understood that the loss of Federal funds as is proposed today will not only negatively influence our ability to administer the program properly, it will also profoundly affect assistance payments to the most needy people of this country. Clearly, action to reform the quality control system is needed. I hope you will be able to take it up in this or hopefully the next Congress.

I know this is not going to be easy, but I encourage you to include at least the following points in any action you undertake on the issue. First to exclude technical errors, for God's sakes, from the calculation of a State's mispayment rate as is currently done, I might add, in the food stamp and medicaid quality control systems; second, I think you need to incorporate, in any tolerance levels established, the differences among States with regard to programs, caseload characteristics, geography, and population. Efforts to try to put people to work, find jobs for them and train them should not be treated as another form to be filled out to raise money for the central government.

The third area is, I think, we need to ensure that major policy changes mandated by the Congress include an implementation moratorium on all quality control errors, recognizing the burdens that rapid policy changes place on the agencies and workers and States and ultimately, as I said, on caseworkers who implement these programs in the field.

Once, again, may I express my gratitude to you, Mr. Chairman, and to members of this committee for undertaking such a difficult task and taking the time, I might add, to address it. It is not exactly a sexy issue here on the Hill, but it is a very real issue involving people, hardship, and a lot of money, money the States and Federal Government need to better target toward those in need rather than target toward meeting some HHS bureaucratic criteria. Thank you very much.

[The prepared statement follows:]

STATEMENT OF GOV. JAMES J. BLANCHARD, ON BEHALF OF THE STATE OF MICHIGAN

I am pleased to have this opportunity to appear before the House Subcommittee on Public Assistance and Unemployment Compensation to discuss our most pressing concerns regarding the Quality Control System in the AFDC Program. As a former Member of Congress, I certainly recall debate on these issues. As Governor of Michigan, I have gained a perspective that I hope will be useful during your consideration of the AFDC Quality Control System.

Mr. Chairman and Members of the Committee, I know that your efforts to seek some relief for the states during the Session have been considerable. This Committee, in its responsiveness, has clearly made possible a more deliberative and constructive discussion of this very complex matter. I also commend Mr. Matsui for the bill he has introduced. His proposals are a comprehensive attempt to address the difficult policy and technical problems associated with the Quality Control Program.

Let me say at the outset that improper administration of the AFDC Program is intolerable. Our use of public funds requires every effort to satisfy our public trust of serving eligible citizens properly. This has become even more essential as the available amount of those public funds has diminished. Toward proper administration of the AFDC Program, I am in full support of quality control practices and am dedicated to continuing and improving the control of errors.

That the States have diligently sought and found improved administrative practices is evidenced by the steadily declining error rates of the past 10 years. Between fiscal year 1973 and the first half of fiscal year 1980, the AFDC Error Rate was more than halved, dropping from 16.5 percent to 7.3 percent. Since 1980, however, error rates have remained relatively constant despite our best efforts, as the states have been called upon to implement the massive policy changes contained in OBRA, TEFRA, and now DERFA.

The Social Security Act provides for a Federal/State partnership to serve families with dependent children. For more than a decade, Congress, the Federal Executive Offices, and the States have been engaged in a sometimes very emotional—even rancorous—debate regarding AFDC errors and potential fiscal sanctions. There is much, however, that suggests this ongoing debate is not about errors at all; rather, what is at issue is which level of government should be responsible for the poor.

For example, when error rates are discussed, they are most often characterized as representing misspent Federal funds. You are mindful, of course, that our partnership provides for sharing the costs of the program, and errors affect our States budgets just as they affect Federal expenditures. Following a painful recession in this country—one that was particularly devastating and prolonged in my state—AFDC expenditures in Michigan today exceed $1 billion, one-half of which is paid by the taxpayers of Michigan. As the Chief Executive responsible for our State budget, I already have all the incentive I need to ensure that these dollars are not misspent.

Some weeks ago, I joined my fellow governors in a communique to you, Mr. Chairman, as well as other leaders in Congress, setting out a number of concerns with respect to the Quality Control Program. Forty States in this country have already been notified of fiscal sanctions in the AFDC, Food Stamp, and Medicaid Programs for fiscal year 1982. While my state is not one of the States under notice, I am aware of our potential liability in future notices. The administration has seriously delayed notification to the states on the findings for fiscal years 1982 and 1983. Even so, the administration proposes to collect for these past years, and through fiscal year 1987, the staggering amount of $990 million from the States in the AFDC Program alone. Governors question whether quality performance can continue even at today's level, given such dramatic withdrawal of Federal participation. I recognize that this Committee has no responsibility for the Food Stamp and Medicaid Programs, but I do. More importantly, at the operational level all three of these programs are implemented by the same workers in the field. To the extent that Government imposes conflicting and constantly changing regulations on workers struggling desperately to keep up with constantly growing caseloads, Government itself is the cause of errors.

To cite but one example, this Committee recently authored legislation which provides for a $50 exclusion of child support received by AFDC recipients. While the intent of this policy is clearly to help the needy, I must point out that the $50 disregarded for AFDC purposes must be included in the family's budget for the Food Stamp Program. Workers must treat the same income differently, causing complexity and confusion, and increasing the chance of errors.

During my personal review of the issues surrounding quality control, I have been dismayed to discover the lack of simple and very basic management principles in the federally mandated Quality Control System.

An example is the case of so-called "technical errors". It is almost incomprehensible to me that the States would be held fiscally liable—and lose critically needed funds—for errors that involve no actual mispayment to recipients. Given the near-crisis mode in administering AFDC, I am sure you understand our reluctance to devote limited administrative dollars to correct errors that have no fiscal consequence.

As Governor of Michigan, my highest priority has been economic development and job creation. As part of that effort, we have attempted to increase the number of AFDC recipients required to participate in employment, education, and training programs. While Federal law exempts parents with children under 6 years from participation in such programs, we have obtained a waiver to require participation when the youngest child is 6 months old.

However, unless a signed registration form is in the case file when the child turns 6 months, a quality control auditor must find the whole case ineligible. Because we were dealing with 85,000 cases with children between 6 months and 6 years, there were cases for which no signed registration was obtained. Consequently, because we tried to move people into employment training, we found that we also increased our technical errors.

Of paramount concern to all Governors is the fact that the current quality control system fails to recognize State-by-State differences. An example is the optional Unemployed Parent Program. Today, Michigan and 23 other States elect to serve unemployed parents. During the recent recession, the AFDC-UP caseload in Michigan has more than tripled from 13,000 cases in 1979 to 50,000 cases in 1983. At that time, Michigan accounted for almost 20 percent of all AFDC-UP cases nationwide. These are working men and women, most with substantial employment history, who have lost their jobs and exhausted their benefits through no fault of their own.

Some of the AFDC-UP errors are also technical in nature. An unemployed family in northern Michigan applied for AFDC last winter. Because the worker determined they were not eligible for unemployment benefits, the case was opened. However, a quality control auditor later ruled that the entire family was ineligible for AFDC-UP assistance because there was no record in the case file of an unemployment compensation application. To obtain such documentation from an Employment Service Office would have required a family member to make an 80-mile round trip to an adjacent county in an unreliable vehicle over snow-covered roads. And there was no question that the family was clearly ineligible for unemployment compensation in the first place!

Failure to apply for unemployment compensation accounts for nearly one-third of Michigan's current "error" rate. We are currently at risk for potentially $8.5 million in sanctions for cases of this type.

Following a massive study of quality control, the U.S. Department of Health and Human Services found that "States with unemployed parent programs or a large percentage of cases with earnings are also expected to have higher payment error rates. . . ." This same draft report of August, 1982, concludes that ". . . States with large, urban caseloads face more difficult problems in controlling payment error, even in the presence of comparable administrative resources." These findings, as well as other significant socioeconomic, geographic, and program differences in State programs, argue strongly for State-by-State tolerance levels rather than a national target.

Others appearing before your Committee today will likely address many of the technical issues associated with the Quality Control System as specified by the Federal Government. Mr. Chairman, you would be appalled to know the multitudes involved in disputes around sampling techniques, regression formulas, and the like. I find of even greater concern, however, the more fundamental flaws that are driving this quality control issue and threatening to shift costs to State taxpayers around the Nation.

It is surely understood that the loss of Federal funds as is proposed today will not only negatively influence our ability to administer the program properly, it will profoundly affect assistance payments to the most needy people of this country. Clearly, action to reform the Quality Control System is needed, and needed soon. I strongly encourage you to include the following points in any action on this issue:

1. Exclude technical errors from the calculation of a States mispayment rate, as is currently done in the Food Stamp and Medicaid Quality Control Systems.
2. Incorporate in any tolerance levels established the differences among States with regard to programs, caseload characteristics, geography, and population.
3. Ensure that major policy changes which are mandated by the Congress include an implementation moratorium on all quality control errors, recognizing the bur-

dens that rapid policy changes place on the agencies and workers who implement these programs in the field.

Once again, may I express my gratitude to you, Mr. Chairman, and to Members of this Committee for undertaking such a difficult task.

Chairman FORD. Thank you very much, Governor. Governor, if you would push that small microphone in front of you back from those two live mikes, that might be our problem with the static.

Governor, we want to thank you for coming over to be with us today to testify before the subcommittee. I would again like to thank you for your input and the statement you have given us. The written statement will be made a part of the record along with the testimony that you have summarized for the subcommittee.

You stated earlier that your caseload has skyrocketed between 1979 and 1983. I think you mentioned 1982 is when you really had a heavy caseload. I believe that under HHS projections the State of Michigan may owe some $15 million in error rate sanctions for the year 1982. How would the State respond if these sanctions are collected by the Federal Government?

Governor BLANCHARD. Well, I don't know how much you know about my State's situation, but yes, the welfare caseload skyrocketed in 1982 and 1983. They are tapering off now. I cut spending, laid off State employees and raised taxes temporarily to meet a huge deficit which was about 40 percent, in one budget year, of the entire budget. All this will do is probably reduce our efforts in economic development and education. And it would hurt, I think, and not help the efficient administration of our human services programs.

We have already reduced the number of caseworkers by several thousands to balance our budget. In Michigan, you might be interested to know, the number of State employees was over 70,000 in 1979—over 70,000. It is now coming close to 56,000. So you can imagine what kind of dramatic contraction your former colleague and dear friend is presiding over.

The number of caseworkers has been reduced substantially. We would end up probably reducing that even more as we would in all the other departments, making it harder to have a more efficient program and thwart my Job Fair Program, my Youth Corps, my efforts to get people working and give them opportunity, hope and training.

I think if you will look, you will find our State is doing more to find unique ways to employ and train and encourage people than any other State. There is a reason for it. We have to. We have to. We just can't live, really even now with what some people call a great improvement, 11½ percent unemployment. It just thwarts our efforts to help, I think, all members, if they were here, would agree is a worthy attempt to get people working again and trained.

Give them help. This takes our resources away. I think that is probably going to be true in California, Tennessee and all the States.

Chairman FORD. Do you know, has the current quality control system, independent of the error penalties, Governor, worked really to reduce errors? I mean, independent of the penalties?

Governor BLANCHARD. Mr. Chairman, I would hope it has helped. I would hope that the quality control program has made the system more precise. But to tell you whether or not it has actually reduced fraud and abuse as opposed to deviation from HHS paperwork, I am not sure. I do have someone here who could tell.

Chairman FORD. State your name for the record, if you don't mind.

Governor BLANCHARD. Jane Snowden, who represents the Michigan Department of Social Services here in Washington. Jane, you heard the question.

Ms. SNOWDEN. I think we could say that quality control as a management tool has been helpful in directing our administrative improvements.

Chairman FORD. Are the error rate penalties needed?

Ms. SNOWDEN. No.

Chairman FORD. You don't think they are needed?

Ms. SNOWDEN. I don't think they are needed beyond, as the Governor cited, our incentives at home to control costs.

Governor BLANCHARD. You know one area that I think you are going to want to look at with great interest is the wage-reporting requirements, which were recently enacted by Congress in your last tax bill, the June tax bill. That may tell us a lot more about what the real mispayment or so-called fraud, abuse rate is than does the quality control program—hopefully, the quality control program, if it indeed is a management tool, improves the system. I am sure that is what it is designed to do. We now do just cost referencing, and we are going to do it very aggressively. Wage reporting with the AFDC roles may go much farther in doing that. One thing I like about the legislation is the provision that gives States incentives to improve the system. I think the good old economic incentive to a State, a budget department, a human services department, a Governor—well, we already have it because we are dealing with our own limited tax dollars. But an additional incentive would probably help a lot more than paperwork.

Actually, I am not sure you are going to be able to afford to give incentives. Again, I know that you are under tremendous pressure here with this crushing deficit. So it is going to be difficult, but that is one I think that would be helpful.

Chairman FORD. Again, thank you very much, Governor.

Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman. I have just a few questions to ask the Governor.

Governor, we have approximately 24 months as the time lag from the time when the alleged error is made and the time that the Federal government notifies the State government. In fact, we still are trying to determine the error rates for fiscal year 1982; fiscal year 1985 actually has just begun. Obviously, most people who receive AFDC benefits are not in a position to pay it back anyway if an error is made. But this 24-month lag, how does it affect your ability to collect from even those that might be able to afford to make some kind of monthly payments?

Governor BLANCHARD. I think it all but rules that out, but I think worse than that, what was intended to be a quality control and efficiency program—weeding out the deserving from the undeserving or at least making sure it is an efficiently run welfare program—is totally thwarted, because there is no way for the bureaucracy or agency or caseworkers or Governor or somebody to crack the whip and say, hey, we found this percentage of errors and here is the frenzy on this type of problem. Go to it.

It doesn't do me a lot of good when I find out 2 years later. You know how long it takes to get the message through anyway.

Mr. MATSUI. You might have a totally new legislature, totally new staff.

Governor BLANCHARD. I might even have to use that as justification for running for reelection, who knows, so I can be around for changes in the error rate. But 2 years can be a long time politically.

Mr. MATSUI. Boy, that is right.

Governor BLANCHARD. It thwarts, I think, your goal of making this a management tool because you don't have the immediate feedback to take corrective steps. Again, I don't have a problem with tough, tough procedures. When a State is told they are doing this or that and it is likely this or that is going to cause fraud abuse or waste, I think it would be admirable where you had a penalty where the State not only has to stop it, but stop it forthwith. But to do it 2 years later, I just don't think it brings about the desired change.

Mr. MATSUI. Governor, to follow up on another question Mr. Ford raised, he asked where you would make the cuts or whether you would raise taxes to pay the $15 million the Federal Government currently is expecting to collect from Michigan under quality control program. I would assume most of the reduction in budget would come from the administration of your AFDC program. Is this correct?

Governor BLANCHARD. Oh, absolutely.

Mr. MATSUI. This in turn would obviously affect adversely your ability to correctly parcel out the benefits under both Federal, State, and perhaps local standards? I just want that on the record.

Governor BLANCHARD. Yes. Oh, there is no doubt. And you should bear in mind that last I checked, about 43 States raised taxes already during these past 2 years to meet deficits caused by high unemployment, increased caseloads, things like that. Michigan was the worst case situation.

We had to take the most dramatic steps. So it would be unrealistic, I think, to expect any of the 43 Governors to come in after having gone through all this and raise taxes again. I am sure I can tell you it won't happen in Michigan, but we have also had to cut spending as well. I mentioned our number of State employees has gone from over 70,000 to 56,000. You start cutting or you start penalizing us for failing to comply with HHS paperwork requirements, it will end up meaning fewer services including social services. And, I think, a less careful management of the system, which is the last thing you want to bring about, which is why I think you will see a mounting assault here by all the Governors urging you to act as wisely as you did earlier this year.

Mr. MATSUI. Governor, the last question I have, perhaps this is more of a thought and maybe something I would want to add to the legislation next year. You indicated that 1981, 1982, and 1983, you have had a rather significant increase obviously in your welfare caseload, mainly because of the recession and the unemployment rate that occurred in your State.

Obviously, your error rating had gone up during the same period of time; is that correct?

Governor BLANCHARD. I think that is correct. We don't have all the numbers in but I think that is correct because our error rate will go up because we have had an explosion of cases and in a couple of years it will go down because we now have a reduction of cases. I must tell you at the same time that the caseload exploded, I was actually cutting back on social services employees to save money.

So I had fewer people handling more cases. The system was bursting and has been bursting at the seams. You don't have to be a Philadelphia lawyer to figure out you would have more errors. I think that would be true of any State regardless of the philosophy of management.

Mr. MATSUI. So during the height of the recession what basically happened was that you had fewer caseworkers and a greater caseload. That leads me to think—perhaps I would like your thoughts, perhaps, in writing would be just as fine, if we should have a period of grace. In other words, oftentimes matters beyond the control of the States will have a major effect upon error rates.

Perhaps there should be a grace period if the error rates should be going up in a particular State, obviously perhaps the Federal Government should say you should have some margin of error and period of grace in order to adjust to that increase.

Governor BLANCHARD. Yes. And I think that we can show a dramatic increase. I don't think the States should be penalized for that. What happens if a hurricane destroys a building in Louisiana which has all the records. Now it wouldn't be fair to penalize Louisiana by saying they have 100 percent error rate all of a sudden because their forms all blew away. But I think under your law that would actually happen. I would hope to say nobody under Margaret Heckler would be serious enough to try to enforce it, but I think technically they would have 100 percent error rate and would have to pay a gigantic sanction.

So I think you want some provision, some flexibility for natural disasters and human emergencies that can be clearly seen, like massive layoffs. We had higher unemployment in Michigan than we have had since the Great Depression. We had 17½-percent unemployment.

Ms. SNOWDEN. Let me say that you might be interested to know that the hurricane we had in Michigan, 1980 through 1983, resulted in a 100-percent increase in the Food Stamp Program, and 25 percent increase in the AFDC program.

And the effect of that is going to be obvious.

Mr. MATSUI. Obviously, you wouldn't be able to——

Governor BLANCHARD. The human hurricane. Yes. At one point, we had half, as I recall, of all the cases of AFDC/UP nationally, is that right?

Ms. SNOWDEN. Yes, that is right.

Governor BLANCHARD. Half. I remember a standard phrase in one of my campaign speeches was that we had more unemployed people than some States have people. We did. Wyoming, Delaware, North Dakota, South Dakota, Alaska, Nevada, and some more, actually had fewer people.

We had over 700,000 people out of work at one point. It was frightening. And it is equally frightening that quality control would actually discourage the Governor of the State from trying to find ways to put them to work, by requiring extra forms.

Chairman FORD. How many do you have now? What is your unemployment rate?

Governor BLANCHARD. Still in the hundreds of thousands range, but it is dramatically down from that level. It is way too high. It is high, tragically high.

Chairman FORD. It is down to what?

Governor BLANCHARD. It is staggering.

Mr. MATSUI. Thank you very much, Governor.

Chairman FORD. Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman.

I would like to welcome our colleague back to the House and let him know we appreciate his testimony, and we remember him with fondness and admiration for the work that he did while he was in the House.

I think we are all pleased and delighted that he has been able to go from the rigors of Congress to the far easier task of running a State.

I just have one question, Jim. And that is relating to your testimony, where you say 40 States have just been notified of fiscal sanctions in three programs for fiscal year 1981.

Governor BLANCHARD. Yes.

Mr. PEASE. Why is HHS so far behind? That is 3 or 4 years behind.

Governor BLANCHARD. I don't know. I think you ought to ask that question. I don't know. And I hate to speculate on why. All I can tell you is it is not an incentive to improve the system when you find out, with that kind of lag in accountability.

Ms. SNOWDEN. The administration representatives will be here today.

Governor BLANCHARD. All right.

Mr. PEASE. Mr. Chairman, I understand we do have a witness from HHS. I think that ought to be a question we ask. It is obviously very difficult for a State to make public policy when it is operating 3 or 4 years behind what one would think would be an appropriate schedule.

Thank you, Jim.

Chairman FORD. Since the Governor may want to hear the answer to the question, why don't we have HHS respond to that question now.

Can we get Ms. Ross to respond to that question?

Ms. ROSS. I am here, Mr. Chairman.

Chairman FORD. You can respond from where you are. Can you respond to the question of Mr. Pease?

Ms. ROSS. The question was why has it taken so long for the waiver request to be reviewed? Is that the question, sir?

Mr. PEASE. No; the question is, according to the testimony of Governor Blanchard, 40 States have just been notified of fiscal sanctions in AFDC, Food Stamp, and Medicaid Programs for fiscal year 1981.

That fiscal year ended 3 years ago. Why does it take HHS that long to notify the States of the sanctions that are imposed upon them.

Ms. Ross. Well, in fact, Mr. Pease, the States were notified of the potential disallowances in March 1983, which was as soon as the error rate of 1981 was available to the agency.

So the notification letter of potential disallowance actually went out in March 1983.

Mr. Pease. Why is there such a long time between the notice of potential liability, and the sending of the official notification?

Ms. Ross. The official notification has still not been sent out in terms of a decision on the results of the waiver review. Fact of the matter is that all 28 States which were notified of their potential disallowance chose to submit a waiver, to apply for a good-faith waiver as provided for under the Michel amendment, which is the statutory authority under which we are entertaining the imposition of fiscal sanctions.

And 28 States submitted waiver requests. It was the first year, we had ever had experience in reviewing waiver requests. And the fact of the matter is I think it is important for everyone to understand the volume of work involved in reviewing those waiver requests was quite extensive.

In fact, Mr. Pease, the average waiver request filled at least five large files and we got waiver requests up to as much as 33,000 pages from some States.

So, it was a voluminous task. We wanted to make sure we conducted the reviews in a fair and equitable manner, make sure there was equity across all the States. So that is one reason it has taken a very long time.

We intend to have the progress speeded up significantly in the future, because of the fact that we have gotten experience in conducting the reviews. In addition, the States have had experience in writing waiver requests.

Mr. Pease. I thank you.

Mr. Chairman, I don't think we ought to impose on Governor Blanchard's time any more. But I do think we have uncovered here a fruitful area for the subcommittee to examine with HHS and other witnesses.

Obviously, we want to reduce errors. I think everybody wants to reduce errors. Governor Blanchard has pointed out that the States have a powerful fiscal incentive to reduce errors as well.

And I guess considering the amount of paperwork we have just been informed about, a legitimate question is whether the whole sanction program is worth all the effort and time it takes in terms of the results that it yields.

And Governor Blanchard has suggested that maybe it isn't. At least that we need to streamline the program to eliminate part of that paperwork because of technical errors.

Governor Blanchard. And I think as the representative from the Department indicated, every State is going to file for a waiver. And they will file their best case which will be volumes of paper. I was just told our waiver is going to fill a large building.

Because we are trying to show that we can't afford fiscal penalties, and that whatever errors there are doesn't reflect on the mispayment, fraud, or abuse. It goes on and on.

When I mentioned 40 States, that included sanctions from AFDC, Food Stamp and Medicaid Programs as well. So it is a serious problem.

Mr. PEASE. Governor, in your testimony, do you mention the range of potential liability for the State of Michigan because of these error rates?

Governor BLANCHARD. I think I gave you an $8 million figure that related to the range of liability. Just on failure to file the one form dealing with denial of unemployment compensation. We think we would be able to show that it would have been a bureaucratic runaround to expect a person to do that filing, because they clearly weren't qualified.

So, what I was suggesting was, a third of our errors were from that one category, that we think was needless. I have heard varying figures on the estimates of our liability, but they go up to and exceed $40 million.

Now, that may not sound like a lot to you. I have to put my old congressional cap back on here. There were days when $40 million wasn't enough to justify an amendment.

But I can assure you that if you are dealing with a State, a major industrial State like Michigan, my general fund, general purpose budget is $5.4 billion. If you take the total budget with passthroughs and everything, it is about $12.8 billion. You know, I used to offer amendments on the Banking Committee that were more than that.

So, when I say $40 million in the State of Michigan, I was able to put to work with the help of our legislature 25,000 kids for a summer for that. That is all the money in the world to Michigan State University and University of Michigan for research and technology.

But I know here sometimes it might not be viewed that way, because the figures you are dealing with are astronomical because you are dealing with social security and national defense.

But those kinds of figures will be a serious blow to the States. I believe even a State as large as California would be hurt very seriously by sanctions. And you might want to have Governor Deukmejian come and testify.

I think it is a serious problem there as well.

Mr. PEASE. Mr. Chairman, as I said before, I do think this testimony has been very valuable and points us in a direction we need to go.

Obviously, $40 or $50 million or whatever, is a lot of money to States. And they have the motivation, surely, to file waiver requests until the Sun goes down in order to avoid that kind of liability.

I don't think the purpose of this sanction program is to generate buildings full of paper. It is to cut down on error rates. And I think it is up to us on the subcommittee to see if there is some better way to cut the error rates without generating this sort of bureaucratic review.

Thank you.

Chairman **Ford**. Thank you, Mr. Pease.

Mrs. Kennelly?

Mrs. **Kennelly**. I don't have a question, but I want to thank the Governor, because obviously your State has provided us a testing place, unfortunately. I thank you, Jim, for coming personally to tell us about it, because you understand how we work here, and I admire you taking the time to tell us about those figures, because I can remember on the city council, I was dealing in thousands. When I was in the State, it was millions. And here our perspective is billions. I know what you mean. Thank you very much.

Chairman **Ford**. Governor, not only on this particular issue, but on other issues, you have been very kind and offered fruitful information to the subcommittee. We are very grateful and appreciative of that.

Again, thank you very much for your appearance before the subcommittee.

Governor **Blanchard**. I appreciate all your hard work, not only on this, but on the compensation, debt, this, and others. And your courage in sticking to your convictions at the conference table.

And I am glad you followed up on your work you have begun here, because I think it is going to be important. And I really believe that any of the 41 Governors that have signed this letter would tell you what I am telling you here.

Chairman **Ford**. Well, the 41 Governors couldn't have had a finer representative than you to speak for them before the subcommittee.

Governor **Blanchard**. Thank you.

Chairman **Ford**. Thank you very much, Governor.

Our next witness is one of our colleagues, a former member of the subcommittee and a senior member on the Ways and Means Committee, the Honorable Charles Rangel of New York.

Mr. Rangel, we are delighted to have you come before your old committee, and as a senior member of the Ways and Means Committee, we are delighted to have all of that very trusted knowledge of yours. We look forward to hearing from you, Mr. Rangel.

STATEMENT OF HON. CHARLES B. RANGEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. **Rangel**. Thank you, Mr. Chairman and my distinguished colleagues.

One will look at the participation of the members of your distinguished subcommittee, and suspect that Republicans don't have poor people. In any event, I want to congratulate you for entertaining the bill that has been introduced by my friend, Mr. Matsui.

Chairman **Ford**. Mr. Rangel, let me say on behalf of Mr. Campbell, he is at the White House. He called, said he was en route here, and that he would want the committee to submit as a part of the record his opening statement.

He indicated that he was at the White House and could not attend. But there are other members on the committee, I don't know where——

Mr. **Rangel**. I know how important it is to get bipartisan support for legislation, so I appreciate the Chair's position.

You know, I said that at your hearings. Not mine.

Chairman Ford. Thank you, Mr. Chairman.

Mr. Rangel. But I think that all politicians, Republicans and Democrats alike, are very anxious to avoid fraud and waste and mismanagement and certainly, we have to find out what tools are available to do that.

I just hope certain factors are taken into account. I would like to use the State of New York, where we recognize that improved efficiency and the elimination of waste in the AFDC Program is a joint Federal-State venture. That is, our taxpayers' money just as Federal money has to go into these types of administrative efforts.

So, New York has invested $100 million of State money into improved administration of the AFDC system. We spend $6 million annually just to keep the computer systems going, to check errors, and in total it costs us approximately $25 million a year just to maintain our quality control system.

Thus, since our investment and the effort, when we talk about penalizing States that are trying to do something—States like ours, that since 1973 has brought the AFDC error rate down from a 25-percent rate to a 6-percent rate, what you are saying is that if you reach out to serve as many of the eligible people in need and also work hard to hold down errors that the Federal Government might be coming after you to penalize you financially.

I don't think that is fair, nor do I think that is what we would want to do. I also hope that you take into consideration the other major Federal programs that are being operated.

I have never seen such vigor in the pursuit of establishing errors and penalizing States, except with programs that directly affect the poor.

All of us know we can determine the quality of a piece of legislation on the Ways and Means Committee based on who is coming in to hear what the legislation is all about. Certainly we have jurisdiction over tax matters.

How much money would we be penalizing the Internal Revenue Service if we made them pay money, or if we reduced their administrative costs by every error they made in reviewing income tax returns?

Just how much money could we save the U.S. Government if we reduced the administrative payment to the IRS by all the corporate errors that are made? But indeed, it works the other way around.

For us, what we do is allocate additional funds for the IRS, because they have convinced us that the more money that you give them, the more they would cut down errors. Of course, this same logic is not applied with respect to public assistance programs, because when you are dealing with poor people, it is easier to take a political shot at them, and it is easier to say that you are penalizing the State when, in fact, what we know we are really saying is that you are eroding purchasing power for AFDC. In effect, you are reducing benefits for AFDC, because unfortunately, our State legislators are not insulated and don't have the courage to try to determine the priorities between the poorest of the poor and other reasons to spend tax levy money.

Another area we really don't see a lot of attention being paid to, as much as we all are concerned with fraud, waste, and mismanagement, would be in the military with the Pentagon.

How much money could we save if we just said we were going to reduce their appropriation by every tank that didn't roll, every plane that didn't fly, every gun that didn't shoot?

Why, we would be able to really make a substantial dent in the deficit if we had this type of error control for the Pentagon.

I suspect all of us could go on and on in trying to find out ways we could save money, but I think, in the final analysis, what we truly know is that when we go out and say, during an election time, that we reduced the amount of money we have given to the States—if we really take a look and see what has happened to the AFDC recipients over the years—we have hit the helpless just once again.

I think CBO has reported that, if we had only kept up with inflation, the amounts we would be paying AFDC recipients would be 70 percent higher today. That the purchasing power of the AFDC recipients has been reduced by some 40 percent since the early 1970's and in the last 4 years has reduced again by some 10 percent.

I know that in the State of New York, and we like to consider ourselves as a very progressive State, that the State legislature has been very reluctant to increase, even to take into consideration inflation, in the amount of AFDC grants.

And there is no question that if they are further penalized with the vast amount of administrative moneys that are going into trying to catch errors that their successes are going to be used to adversely affect the recipients once again.

I think that we should repeal the whole existing quality control system, because there reaches a point where it is not cost-effective given the amount of money that you are putting into it. By and large the States are doing a good job and further sanctions will not produce any additional benefits.

But I don't suspect that politically, we would have the votes to do that. That is why I want to congratulate Congressman Matsui for coming up with at least a compromise idea, where we do have some penalties locked into place for those who think it might work, but at the same time, it would give the States another opportunity really to concentrate more on protecting the benefits, and not just in being penalized.

I thank you for the opportunity of having preached to the choir, but I think it is good to have established a record. Thank you for the opportunity.

[The prepared statement follows:]

STATEMENT OF HON. CHARLES B. RANGEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, I very much appreciate the opportunity to testify on H.R. 6295, the AFDC Quality Control Reform Bill of 1984. Congressman Matsui is to be congratulated for introducing this important piece of legislation and you are to be commended for promptly holding this hearing.

I am quite concerned about the operation of the quality control process within the AFDC program. As you are aware, HHS has estimated that over $1.3 billion dollars will be collected from the States during the next 5 years as a result of sanctions imposed by error projections based upon the quality control system.

I would like to call to the subcommittee's attention several factors to keep in mind as you consider this legislation:

First, States have made considerable improvement in managing their AFDC programs over the past few years. The AFDC program has undergone tremendous changes. New provisions and procedures have been absorbed in a relatively short time frame. Yet, despite this, solid progress has been made to reduce program errors. Given this, what message do we give States by penalizing them?

Second, inasmuch as AFDC is financed jointly by States and the Federal Government, States have substantial financial incentives to reduce errors and manage their programs efficiently. There is little evidence that the application of error rate sanctions under present law will be cost-effective or prudent. In fact, present law will unfairly punish those States who have historically had lower than average error rates.

Third, just as all members of this subcommittee, I am interested in minimizing errors, waste, fraud and abuse wherever it occurs. I find it hard to understand, however, why the Administration does not seek program management efficiencies with equal vigor in other areas such as defense or tax administration. Instead of focusing narrowly on AFDC, our efforts to reduce fraud, waste and abuse should be directed at other major government programs where additional funding for improved administration will yield a much higher return.

Finally, and most importantly, I support this legislation because these penalties will only further reduce social services or further erode the purchasing power of AFDC benefit levels. Penalizing the States in this unfair way is really a benefit cut in disguise. The Administration clearly knows that most States will simply reduce services or forego benefit improvements to make up for lost resources. Is this wise or compassionate at a time of increasing poverty?

PROGRESS OVER THE PAST FEW YEARS

Over the past few years, the national error rate in AFDC has declined dramatically. In 1973, the payment error rate was 16.5 percent. For 1982, the latest year for which information is available, the error rate is 7.0 percent.

My home State, New York, has been vigilant in its pursuit of improving the management of income maintenance programs. As a result, the State has made tremendous inroads in controlling AFDC eligibility and benefit errors. In the past decade, erroneous payments in New York have been reduced from 25 percent in 1973 to the current rate of 6 percent.

New York's efforts, ranging from very simplistic procedural steps to highly sophisticated computer systems, help explain the success in reducing our error rate, which, in turn saves taxpayers in New York over $200 million annually.

While it is difficult to identify exact costs associated with error reduction efforts, hundreds of staff and millions of dollars are allocated each year to these efforts. The State's Welfare Management System (WMS) was specifically developed to address errors in the eligibility determination process. Developmental costs for this system have exceeded $100 million. On a yearly basis it is estimated that 20 percent or $3.2 million of WMS's operating costs are directly related to error reduction.

Another major computer system, the Wage Reporting System, was established to identify earnings of applicants and recipients of assistance. The yearly operating costs of this system are over $6 million.

Finally, it is conservatively estimated that 10 percent of program administrative cost, which mainly reflect personnel costs, are devoted to corrective action and error reduction efforts. For the AFDC program, this represents over $25 million a year.

At the national level, Congress has passed many laws to assist States in reducing errors. Just this year, Congress passed a provision to use IRS information to verify resources and unearned income. During past years, we have required States to collect overpayments, required States to use retrospective accounting, and increased the Federal administrative match for automation of the AFDC caseload.

Clearly, New York and other States are investing substantial amounts in improved administration and error reduction. It would be unfair to reward this investment with fiscal sanctions. Given the States' progress in reducing errors and the fact that some of these procedures are just being implemented, States should not be penalized for errors made in prior years.

PRESENT INCENTIVES WITHIN THE SYSTEM

The AFDC quality control system began in the early 1970s as a management tool. The purpose was to assist AFDC administrators in identifying areas where mistakes were occurring so that they could take the appropriate administrative action. As this subcommittee is aware, the states pay from 22 to 50 percent of AFDC benefit payments, with the average being approximately 46 percent. In addition, the states pay 50 percent of the cost of administration. This, to most management experts, would prompt the correct tradeoff between increasing administrative cost to reduce incorrect benefit payments. In addition, each state must determine the tradeoff between administrative cost, incorrect benefit payments and other management objectives. These include how many barriers to place before eligible and needy individuals from participating in the program and how quickly aid is given to recipients. There is little evidence that AFDC administrators are not making the correct tradeoffs between those competing objectives. Furthermore, there is no evidence that error rate sanctions imposed upon the States will significantly reduce the error rate within AFDC. In fact, just the opposite could occur. Faced with these penalties, some states may reduce administrative cost and this could result in higher error rates.

QUALITY CONTROL IN OTHER PROGRAMS

As I stated at the outset, I am interested in seeing that our laws are administered correctly and efficiently in all government activities. Every politician is against waste, fraud and abuse. We must all recognize that in no program can we wave a magic wand and reduce error and waste without spending time and administrative dollars to accomplish that goal. A key question is what management tools and administrative improvements will be cost effective. I believe a narrow focus upon the AFDC program is inappropriate especially since the evidence is overwhelming that spending administrative dollars in other program areas will lead to greater government savings than we can expect from AFDC error reduction.

Internal Revenue Service

For example, increasing the staffing level of the IRS would be extremely cost-effective. The IRS has reported to me that a staff increase of 4,500 positions would cost $166 million and yield $1.7 billion in increased revenues. The revenue yield to cost ratio would be approximately $10 collected for each $1 of resources spent. Moreover, the IRS in its own budget document states that a 1 percent improvement in voluntary compliance would increase receipts by $3 billion. Let me emphasize that here we are talking about tax dollars that are undisputed taxpayer obligations and should by right be paid. Our Committee has urged the Administration to recognize this potential source of revenue. OMB has consistently rejected the IRS's call for more funds and failed to use this agency as a means of addressing the budget deficit.

I will be holding hearings next year on IRS funding levels and the allocation of resources within the Service.

Defense Program suppliers

Current law requires that, upon signing a contract, the Pentagon is to be provided with a written warranty from the contractor that the weapon will perform as intended. This means that no contract can be signed, no money spent, without the written assurance for our soldiers, sailors, marines and taxpayers that the weapon will function as promised by the contractor. The law may be waived for reasons of national security or cost effectiveness.

The law provides that in the event of a failure of the weapon system or component, the contractor will bear the cost of all work and promptly repair or replace such parts as are necessary to achieve the required performance requirements.

Working with Senate Republicans, the Department of Defense has consistently sought to undermine the intent of this warranty law. In the President's Fiscal 1985 Budget and 1984 Supplemental Defense Funding request, the White House inserted language that would repeal this warranty requirement. In addition, the Pentagon has been quick to request waivers of the law. On March 14, the day the warranty law went into effect, the Pentagon requested that warranty requirements in cost reimbursement type contracts be waived on the grounds that they would not be cost-effective.

I would note that we have not given the Secretary of HHS the ability to waive AFDC error rates sanctions if further reductions in a states' error rate would not be cost-effective.

The Medicare Program

In the fiscal year 1982 budget, the Administration reduced the audit budget for Medicare by 10 percent and cut 330 auditors from the program. Congress responded by adding $45 million per year for this program. Blue Cross and Blue Shield have consistently demonstrated that additional dollars spent in auditing and reviewing hospital and doctor cost reports would be cost-effective and reduce government costs. One dollar of additional audit monies will save from $5 to $10 in the Medicare program.

Mr. Chairman, the reason for bringing these facts to the attention of the Subcommittee is to demonstrate the inconsistency of this Administration's policies. By collecting error rate sanctions from the States, the Administration seems to be more interested in reducing welfare expenditures of the Federal Government than in efficient and effective administration of Government programs. If they were really interested in the latter, many other places within the Federal Government would be receiving attention.

AFDC BENEFIT LEVELS

The most important reason for suporting the Matsui bill is that if the States are forced to pay over $1.3 billion to the Federal Government during the next five years, their response will be to reduce the level of social services elsewhere or to further erode the AFDC benefit level.

As this Subcommittee knows all to well, the purchasing power of AFDC benefits has declined by nearly 40 percent since the early 1970s. AFDC purchasing power has declined by over 10 percent during the last four years. The Congressional Budget Office estimates that AFDC outlays would be 70 percent higher if benefits had kept up with inflation since 1970. Today, over 21 States do not pay a combined AFDC plus food stamp benefit level equal to 65 percent of the poverty line for a parent with two children and 26 States do not do so for a parent with three children.

The Commissioner of the social service programs in my State has frankly stated that these payments to the Federal Government will force the State of New York either to reduce its services in other programs to AFDC recipients or the State will continue to erode the purchasing power of AFDC benefit levels. Other states report that they will be forced to actually cut benefits.

For that reason, I believe this bill does not go far enough. It should be combined with one of the provisions contained within the Omnibus Anti-Poverty bill which Congressman Ford and I introduced earlier this year. This provision gives States an incentive to maintain the purchasing power of AFDC benefit levels by reducing the States matching rate for AFDC benefit increases.

Obviously, my first preference would be to simply repeal the error rate sanctions entirely and return the quality control process to a management tool which is used by the States to improve the program. I understand that the votes are probably not there for that approach. At a minimum, we should be willing to plow back into the program the additional dollars necessary to keep AFDC benefit levels up with inflation. Therefore, I urge the Subcommittee to give serious consideration to H.R. 6295 as introduced by Mr. Matsui and couple it with provisions to encourage States to maintain benefit levels.

In so doing, while some penalties monies will continue to be collected under the Matsui bill, the impact upon beneficiaries would be offset by an equal or greater Federal flow of monies to the States.

Again, I commend you Mr. Chairman and Mr. Matsui for bringing this important matter to the attention of the Subcommittee and I will assist you in any way I can to move this legislation early next year. I would be happy to answer any questions.

Chairman FORD. Thank you very much, Chairman Rangel.

Mr. Rangel, if I heard you correctly, you are saying you are absolutely convinced that the collection of these error rate penalties will hurt beneficiaries.

Mr. RANGEL. I say this from a position of experience, having served in the New York State Legislature, and understanding we have always been out front in trying to take care of those who are most disadvantaged.

Unfortunately, the voters don't have the same degree of priority for that segment of our population that lack the political clout to get this done.

So, when you find concepts like referendum 13 or reduction in taxes or reduction in services, there is no question in my mind that our States feel that they have gone as far as they can.

If there is going to be a reduction in Federal dollars, you can bet your life that it is going to be a reduction in services——

Chairman FORD. And impact.

Mr. RANGEL. And impact. I think if you look at what has happened over the last decade, that you would find in at least 21 States, if you combine AFDC and food stamps with a family of four, even those States find themselves 65 percentage below the poverty line.

So, more and more States are saying that they can do less and less, notwithstanding the embarrassment they must feel.

Chairman FORD. Thank you, Mr. Rangel.

Mr. MATSUI. I just have one question for Chairman Rangel. Do you believe that having some kind of a standard that States must comply with or be subject to some kind of sanctions does have a deterrent effect upon States to try and improve their error rate?

Or do you feel that there are other possibilities as well that can be employed?

Mr. RANGEL. As I tried to point out, when a State is using its own money, that should be an incentive in and of itself to match at least 20 to 50 percent, depending on what the formula is.

I do believe that the sanctions did have a deterrent factor early on. But when you take my State that has invested so much money and personnel and equipment to do a job, what you are basically saying is, the better job that you are doing, the more people you are reviewing, the more errors that you are going to find, and the more we are going to penalize you.

It just doesn't make sense.

Mr. MATSUI. I know. Those that really support this type of quality control program are inconsistent, because usually those are the same people who advocate swift and speedy punishment of criminals, because that is the only way you get deterrence.

But here we have a two-plus-year lag between the time the error is made and the time notification actually occurs.

So I do wonder what the sanction value really is in correcting these error rates in this particular situation.

Mr. RANGEL. And I don't think they include, unless they changed it, but when they don't put someone on AFDC or they underpay someone what they should get in AFDC, I don't think they consider that an error.

Mr. MATSUI. Yes.

Are you going to run for mayor?

Mr. RANGEL. Was there another question?

Chairman FORD. Are you going to run for mayor?

Mr. RANGEL. I can understand how most of the junior members on the Ways and Means Committee would have an interest in that question, but—thank you very much.

Chairman FORD. Thank you, Mr. Chairman.

The subcommittee will call the U.S. Department of Health and Human Services, Ms. Jo Anne B. Ross, Associate Commissioner for Family Assistance, Social Security Administration.

Ms. Ross, we are delighted to have you before the subcommittee once again.

STATEMENT OF JO ANNE B. ROSS, ASSOCIATE COMMISSIONER FOR FAMILY ASSISTANCE, SOCIAL SECURITY ADMINISTRATION, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Ms. Ross. Thank you.

Chairman Ford. If you want to bring some of the staff up, if they want to be seated at the table with you——

Ms. Ross. No, that is quite all right. If I need them, I will ask them to come up if that is all right. Thank you, Mr. Chairman.

Chairman Ford. All right. The Chair will recognize you at this time.

Ms. Ross. Thank you, Mr. Chairman. I am delighted to be here myself. You know that I have submitted a fairly lengthy testimony for the record, and I have decided to shorten that statement.

Chairman Ford. The entire text will be entered into the record.

Ms. Ross. Thank you.

As I said, Mr. Chairman, I am very pleased to have the opportunity to appear before you and the subcommittee this morning to discuss the quality control [QC] system in the Aid to Families With Dependent Children [AFDC] Program.

The QC system is a vital and necessary part of the AFDC Program, a needs-based program currently serving almost 3.7 million families with children.

History shows that the QC process provides the impetus and the information needed to reduce erroneous expenditures in the AFDC Program.

For the QC system not only enables us to identify the amount of erroneous expenditures within a State, but also provides the information needed to control future errors.

Through the QC process, we, both at the Federal and State levels, demonstrate our commitment to continually improve the efficiency and effectiveness of the AFDC Program.

In doing so, we show the public that we are increasingly responsible stewards of the taxpayers' funds. And, as you well know, the public's perception of the integrity of the AFDC Program is important to maintaining their support and budget dollars for this vital assistance program.

We believe the current QC system in the AFDC Program is both programatically and statistically sound. It represents a long-standing commitment of both the Congress and the Department to quality control.

In fact, the current system reflects development over the past 20 years. My testimony today will review these historical developments, outline special corrective action provisions, describe our ongoing efforts to work with States to reduce erroneous payments, and summarize future error rate projections and potential State fiscal disallowances.

First, however, I would like to put quality control and erroneous payments in the proper context.

It is important to remember that the QC system measures erroneous AFDC payments. These consist of overpayments made to eligible families who receive more than they are entitled to, and to families who are not entitled to AFDC.

This point is sometimes lost in the discussions about QC policy, which most recently have focused on fiscal disallowances for States which have not met their target error rates.

In any discussion of quality control, it is important to remember that reductions in State error rates, whether accomplished through the congressionally mandated error targets, through HHS technical assistance efforts, or through better State management, yield substantial savings without adversely impacting families entitled to AFDC.

Reductions in error rates free up resources which can be used to increase assistance for those who really need it. Currently, erroneous AFDC expenditures account for nearly $1 billion per year.

The QC system, which has evolved over the years, requires achievement of congressionally mandated error targets which can and should be met. The 4 and 3 percent tolerance levels, in effect, provide for Federal matching at a rate of 104 percent and 103 percent of proper expenditures.

In addition, the Federal Government matches all administrative costs, including error reduction activities, on an open-ended basis.

Furthermore, 90 percent Federal matching is available for statewide automated systems, which promote streamlined procedures and computer matching, that can significantly reduce errors.

In our view, the QC system reflects reasonable public expectations about what can and should be done to eliminate fraudulent or wasteful spending so that the taxpayers' funds can be targeted toward those families who are most in need of help.

In 1964, the then-Department of Health, Education and Welfare made a commitment to Congress that it would design and implement a system to measure the validity of AFDC cases on a continuous basis.

This commitment was generated by congressional and departmental concerns over high AFDC ineligibility rates uncovered in a 1963 national eligibility review of AFDC cases.

As a result, HEW developed and implemented the first nationwide QC system in the AFDC Program in 1965. That system was designed solely to improve the performance of States in determining eligibility.

Between 1971 and 1975, HEW issued QC regulations which established error rate goals. In 1975, the Department issued regulations establishing absolute tolerance levels of 3 percent for ineligibility and 5 percent for overpayments, which had to be met July 1, 1975.

Thirteen States filed suit because of this regulation, and in May 1976, the U.S. District Court for the District of Columbia declared invalid the regulation under which the Department would have imposed the fiscal disallowances on the States.

Subsequently, HEW returned to the pre-1973 policy of withholding FFP only for the individual erroneous payments discovered in the quality control sample or other Department or State reviews which uncovered inaccurate payments.

In March 1979, after almost 3 years of negotiations with State and local representatives, the Department published regulations which provided more flexible error rate tolerance levels.

States were required to either meet an error rate limit based on the national standard or to achieve a 6.4-percent reduction in their error rates each year.

A 6.4-percent reduction was the average rate of error reduction during 1976 and 1977. The regulations also included steps that States could take to correct errors and avoid penalties.

The new Department of Health and Human Services [HHS] temporarily suspended the $24 million in disallowances imposed under the 1979 regulations once a State negotiated a prospective corrective action plan with HHS. After such a corrective action plan was implemented, HHS permanently suspended the disallowance.

Shortly after the March 1979 regulations were published, Congress expressed its dissatisfaction with the new rules, primarily because the error rate tolerance levels were too lenient.

As a result, when Congress passed the HHS fiscal year 1980 appropriation bill, it provided statutory authority for using the QC system to disallow erroneous payments above specific limits set forth in the statute. This provision, sponsored by Representative Robert Michel, became known as the Michel amendment.

The Michel amendment established a 4-percent maximum payment error rate for all States, to be achieved by September 30, 1982 in annual, one-third increments.

This amendment also required the Federal Government to reduce matching funds for payments to ineligibles and overpayment errors in excess of the targets set in the statute, unless the Department finds valid a State's claim that extraordinary circumstances existed.

In 1982, Congress dealt again with the AFDC error rate tolerance level in the Tax Equity and Fiscal Responsibility Act [TEFRA]. In TEFRA, Congress retained the 4-percent error rate tolerance level for fiscal year 1983, but further reduced the level to 3 percent for fiscal year 1984 and thereafter.

TEFRA continued the concept of granting waivers of the error rate disallowance in certain limited circumstances.

Specifically, both the Michel amendment and TEFRA provide that a disallowance could be waived if a State failed to attain the target despite a "good-faith effort."

The regulations implementing both the Michel amendment and TEFRA establish a number of factors which HHS considers in determining whether a disallowance should be waived in whole or in part.

These generally include conditions beyond the States' control, such as: Strikes of States' staffs, hurricanes, as Governor Blanchard mentioned earlier; and sudden or unanticipated workload changes in a State's AFDC Program which result from changes in Federal law and regulations, and/or rapid, unpredictable caseload growth.

Substantial statutory changes have been made in the AFDC Program since 1981, primarily in three major pieces of legislation—the Omnibus Budget Reconciliation Act of 1981, the Tax Equity and Fiscal Responsibility Act of 1982, and the Deficit Reduction Act of 1984.

The Office of Family Assistance recognized that these changes in Federal statute and regulation could impact on the States AFDC error rates.

As a result, OFA established modified QC procedures to provide States with relief from atypical QC error rates associated with the implementation of these new AFDC changes.

A State could also request a waiver if it developed and implemented a corrective action plan that was reasonably designed to reach the target error rate, but the target error rate was not met.

In accordance with the regulations implementing the Michel amendment, we consider several factors in reviewing a State's waiver request, as noted in my prepared statement.

For the first Michel year, fiscal year 1981, 28 States failed to reach their error rate targets. All 28 States requested waivers. Twenty-seven waiver requests were based on both timely-developed corrective action plans and circumstances generally beyond the State agency's control.

Thus, the overwhelming number of waiver requests for the first Michel period were based, in part, on corrective action activities, which, for one reason or another, were not entirely successful in achieving the State's error reduction goal.

As a result of this, as well as our long-standing commitment to error reduction efforts, we at the Federal level have been providing technical assistance to help the States improve their ability to incorporate successful error reduction techniques in their corrective action plans and effectively manage a corrective action process.

One of the most successful technical assistance efforts has been in the area of technology transfers, where we work with States to arrange for them to share successful management techniques among themselves.

In fiscal year 1984, 187 technology transfers were completed, 35 of which were directly related to error reduction techniques.

West Virginia and Arizona provide an excellent example of how well technology transfer can work. OFA region III staff prepared a trend analysis of West Virginia's error rate, which included a projection of its error rate for fiscal year 1982 through fiscal year 1987.

This analysis revealed that West Virginia would not be able to achieve the 4-percent target by fiscal year 1983 or the 3-percent target by fiscal year 1984 based on existing efforts.

The OFA region III staff also analyzed the State's corrective action process, which revealed several weaknesses in its system.

The region III staff presented their findings to Dr. Leon Ginsberg, who was then the commissioner of West Virginia's department of human services.

As a result of these discussions, Dr. Ginsberg made the commitment, both personally and for his agency, to make error reduction a priority. The State allotted the necessary resources to implement a corrective action plan which included several of the region III suggestions as modified by West Virginia to accommodate its organizational structure and environment.

West Virginia then proceeded to reduce its error rate from 8.1 percent in the October 1981 through March 1982 period, to a stunning 3.2 percent in the October 1982 through March 1983 period.

This 60-percent decrease in West Virginia's error rate was achieved in just 1 year. Furthermore, our preliminary findings from the second half of fiscal year 1983 show that West Virginia has further reduced its error rate to about 2.8 percent, resulting in an annualized fiscal year 1983 error rate of just under 3 percent.

Subsequent to West Virginia's success, OFA region IX staff arranged for Dr. Ginsberg and the region III staff to visit Arizona to share the successful techniques employed in West Virginia.

Arizona has since appointed a corrective action coordinator and established a performance review team to reduce its error rate. OFA anticipates the same type of favorable error reduction results in Arizona, due in large part to the technology transfer effort.

OFA is continually working on these and other technical assistance efforts. For example, we have produced various publications and other informational materials for the States on specific actions that have proved successful in reducing error rates.

In addition, we routinely provide information that we have developed, upon request, to the States. This includes packages on numerous error reduction techniques, including: Interviewing techniques; bank matches; reducing enumeration errors; and reducing willful client misrepresentation.

None of these efforts is a substitute for firm State commitment to error reduction. The evidence shows that once the commitment is made, errors can be controlled. And we are continually working with the States to help them achieve, and, like West Virginia, to even exceed their targets.

In addition to working with the States on specific error reduction techniques, OFA is also working to produce the national error rate data on a more timely basis and to refine the good-faith waiver review process.

As noted earlier, all 28 States subject to disallowances for AFDC errors in fiscal year 1981 submitted waiver requests. SSA's recommendations on these waiver requests are currently pending review in the Office of the Secretary.

Should a waiver be denied, in whole or in part, the usual disallowance process would be applied, and the State may then request a reconsideration of the disallowance issues by the SSA Commissioner or submit an appeal to the HHS Grant Appeals Board.

Once the decisions are released on the fiscal year 1981 waiver requests, we anticipate the quick release of the fiscal year 1982 national error rates and will individually notify States which are subject to a potential disallowance.

We anticipate releasing the fiscal year 1983 national error rate data in early fiscal year 1985, and the fiscal year 1984 national error rate data in late fiscal year 1985.

In fiscal year 1981 alone, nearly $1 billion in AFDC benefits were paid to individuals who were either not legally entitled to any benefit or were not legally entitled to the benefit amount they received.

Of this $1 billion in misspent fiscal year 1981 funds, the maximum sanctionable amount is only $73.5 million. This $73.5 million represents less than 8 percent of the total erroneous expenditures, and only 1 percent of the total Federal AFDC expenditures for that year.

Over the next 5 years, assuming current error rate projections, we estimate maximum potential disallowances of approximately $1 billion; in fiscal year 1982 potential disallowances of $99 million; fiscal year 1983 potential disallowances of $180 million; fiscal year 1984 potential disallowances of $234 million; fiscal year 1985 potential disallowances of $220 million; and fiscal year 1986 potential disallowances of $198 million.

Simply put, the threat of sanctions has reduced States' error rates. Since the advent of error rate targets and sanctions, we have seen AFDC error rates fall to 7.7 percent in 1981.

This is the lowest annualized rate since we began keeping national statistics and a significant improvement over the national average error rate of 16.5 percent in 1973. Further, we project that the AFDC error rate will continue to decline.

Currently, we project a national average error rate of 7 percent in fiscal year 1982; 6.7 percent in fiscal year 1983; 6.3 percent in fiscal year 1984; and 6.1 percent in fiscal year 1985.

Preliminary data for fiscal year 1982 indicates that we are right on target with the 7-percent figure and that the fiscal year 1983 error rates may be even lower than our estimate.

The continual decline in error rates is not happening without a lot of work from both the States and the Federal Government.

As noted earlier, this effort is extremely important. As we get the error rates down, we demonstrate that we are increasingly responsible and efficient administrators of the public trust.

We improve the image of the AFDC program, which benefits everyone—the lawmakers, the taxpayers, the administrators and the recipients.

I would be happy to answer any questions you may have.

[The prepared statement follows:]

STATEMENT OF JO ANNE B. ROSS, ASSOCIATE COMMISSIONER FOR FAMILY ASSISTANCE, SOCIAL SECURITY ADMINISTRATION, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. Chairman, I am pleased to have the opportunity to appear before you and the Subcommittee this morning to discuss the Quality Control (QC) system in the Aid to Families with Dependent Children (AFDC) program.

The QC system is a vital and necessary part of the AFDC program—a needs-based program currently serving almost 3.7 million families with children. History shows that the QC process provides the impetus and the information needed to reduce erroneous expenditures in the AFDC program. For the QC system not only enables us to identify the amount of erroneous expenditures within a State, but also provides the information needed to control future errors.

Through the QC process, we—both at the Federal and State levels—demonstrate our commitment to continually improve the efficiency and effectiveness of the AFDC program. In doing so, we show the public that we are increaseingly responsible stewards of the taxpayers' funds. And, as you well know, the public's perception of the integrity of the AFDC program is important to maintaining their supsport and budget dollars for this vital assistance program.

We believe the current QC system in the AFDC program is both programmatically and statistically sound. It represents a longstanding commitment of both the Congress and the Department to quality control. In fact, the current system reflects development over the past 20 years. My testimony today will review these historical developments, outline special corrective provisions, describe our ongoing efforts to work with States to reduce erroneous payments, and summarize future error rate projections and potential State fiscal disallowances. First, however, I would like to put quality control and erroneous payments in the proper context.

It is important to remember that the QC system measures erroneous AFDC payments. These consist of overpayments made to eligible families who receive more than they are entitled to and to families who are not entitled to AFDC.

This point is sometimes lost in the discussions about QC policy, which most recently have focused on fiscal disallowances for States which have not met their target error rates. In any discussion of quality control, it is important to remember that a reduction in State error rates—whether accomplished through the congressionally-mandated error targets, through HHS technical assistance efforts, or through better State management—yield substantial savings without adversely impacting families entitled to AFDC. Reductions in error rates free-up resources which can be used to increase assistance for those who really need it. Currently, erroneous AFDC expenditures account for nearly one billion dollars per year.

The QC system, which has evolved over the years, requires achievement of congressionally-mandated error targets which can and should be met. The 4 and 3 percent tolerance levels, in effect, provide for Federal matching at a rate of 104 percent and 103 percent of proper expenditures. In addition, the Federal government matches all administrative costs, including error reduction activities, on an open-ended basis. Furthermore, 90 percent Federal matching is available for Statewide automated systems, which promote streamlined procedures and computer matching, that can significantly reduce errors. In our view, the QC system reflects reasonable public expectations about what can and should be done to eliminate fraudulent or wasteful spending so that the taxpayers' funds can be targeted toward those families who are most in need of help.

In 1964, the then Department of Health, Education and Welfare (HEW) made a commitment to Congress that we would design and implement a system to measure the validity of AFDC cases on a continuous basis. This commitment was generated by Congressional and Departmental concerns over high AFDC ineligibility rates uncovered in a 1963 national eligibility review of AFDC cases. As a result, HEW developed and implemented the first nationwide QC system in the AFDC program in 1965. That system was designed to improve the performance of States in determining eligibility. Under the system, a sample of case actions was evaluated in terms of how well workers were making eligibility decisions, based on State procedures, at the time of application or subsequent redetermination.

In 1971, HEW issued final regulations that substantially revised the QC system. The revised system focused on recipient eligibility and, for the first time, the correctness of payments.

Under the revised system, States were required to draw larger samples from a valid cross-section of the entire AFDC caseload, rather than sampling just case actions. States were also required, for the first time, to submit formal "corrective action plans." Finally, the revised system set case error rate "tolerance levels" of 3 percent for ineligibility and 5 percent for over payments and underpayments. These percentages were set only as goals for States to achieve in managing the AFDC program. The Department, however, did withhold Federal financial participation, or FFP, for erroneous payments actually identified in those cases in the QC sample, in accordance with normal audit procedures. Error rate tolerance levels were not tied to fiscal disallowances until later.

By 1972, seven years after a nationwide QC system was first implemented, few States were completing the QC reviews of their AFDC sample cases. In fact, HEW was in the process of citing 19 States for total non-compliance with the QC regulations. In an effort to secure compliance, HEW published a proposed rule that year indicating its intent to begin withholding FFP on January 1, 1973 for all assistance payments made to ineligible cases and for overpayments made to otherwise eligible recipients.

In the spring of 1973, HEW issued final regulations, but delayed the impostion of the fiscal disallowances for one year, until January 1, 1974. These regulations tied the fiscal disallowances to the error rate goals established in 1971; 3 percent for ineligibility and 5 percent for overpayments. FFP was to be withheld based on incremental error reduction goals that the States were to achieve during the preceding year.

After the 1973 regulations were published, all States submitted corrective action plans on schedule, and, for the first time, all States completed their quality control samples.

Over the next year, the Department delayed the imposition of the fiscal disallowances on two more occasions. But in October 1974, HEW announced that it would reduce Federal matching on AFDC payments for the six-month period beginning July 1, 1974 for those States with excess errors. These "downward adjustments" totalled $61 million. In today's dollars, that would be equivalent to a sanction of about

$120 million for a six-month period or an annualized sanction of about $240 million, which is about three times the potential disallowance for FY81.

In March 1975, however, the Department waived all disallowances for the period July 1, 1974 through June 30, 1975, and subsequently issued new regulations establishing absolute tolerance levels of 3 percent for ineligibility and 5 percent for overpayments which had to be met effective July 1, 1975.

Thirteen States filed suit because of this regulation, and in May 1976, the U.S. District Court declared invalid the regulation under which the Department would have imposed the fiscal disallowances on the States.

In March 1977, HEW returned to the pre-1973 policy of withholding FFP only for the individual erroneous payments discovered in the quality control sample, or other Department of State reviews which uncovered inaccurate AFDC payments.

In July 1977, a provision was adopted in the Social Security Amendments of 1977 (P.L. 95-216) providing fiscal incentives to States which made progress toward reducing AFDC error rates below 4 percent. This was the first statutory provision aimed at building an error tolerance level into the AFDC program.

In March 1979, after almost three years of negotiations with State and local representatives, the new Department of Health and Human Services (HHS) published regulations which provided more flexible error rate tolerance levels. States were required to either meet an error rate limit based on the national standard or to achieve a 6.4 percent reduction in their error rates each year. A 6.4 percent reduction was the average rate of error reduction during 1976 and 1977. The regulations also included steps that States could take to correct errors and avoid penalties. The Department temporarily suspended the $24 million in disallowances imposed under the 1979 regulations once a State negoitated a prospective corrective action plan with HHS. After such a corrective action plan was implemented, HHS permanently suspended the disallowance.

Shortly after the March 1979 regulations were published, Congress expressed its dissatisfaction with the new rules, primarily because the error rate tolerance levels were too lenient. As a result, when Congress passed the HHS FY80 appropriation bill, it provided statutory authority for using the QC system to disallow erroneous payments above specific limits set forth in the statute. This provision, sponsored by Representative Robert Michel, became known as the "Michel Amendment."

The Michel Amendment established a 4 percent maximum payment error rate for all States, to be achieved by FY84 in annual, one-third increments. Thus, under the Michel Amendment, States were required to reduce their error rates by one-third, toward the 4 percent tolerance limit, by September 30, 1980, two-thirds by September 30, 1981 and to attain a 4 percent error rate by September 30, 1982. Because an error rate cannot reasonably be measured for the last day of the fiscal year, the error rate of the subsequent fiscal year was used to measure the attainment of the prior September 30 target. This amendment also required the Federal government to reduce matching funds for payments to ineligibles and overpayment errors in excess of the targets set in the statute, unless the Department finds valid a State's claim that extraordinary circumstances existed.

In 1982, Congress dealt again with the AFDC error rate tolerance level in the Tax Equity and Fiscal Responsibility Act (TEFRA). In TEFRA, Congress retained the 4 percent error rate tolerance level for FY83, but further reduced the level to 3 percent for FY83 and thereafter. Puerto Rico, Guam and the Virgin Islands were excluded from this new limit. TEFRA continued the concept of granting waivers of the error rate disallowance in certain limited circumstances.

Specifically, both the Michel Amendment and TEFRA provide that a disallowance could be waived if a State failed to attain the target despite a "good faith effort." The regulations implementing both the Michel Amendment and TEFRA establish a number of factors which HHS considers in determining whether a disallowance should be waived in whole or in part. These generally include conditions beyond the States' control, such as:

Fire, flood, civil disorders or other disasters that: require diversion of personnel normally assigned to AFDC eligibility administration; or destroy or delay access to records needed to make or maintain accurate eligibility determinations.

Strikes of State staff or other government or private personnel affecting the administration of AFDC.

State actions resulting from incorrect written policy interpretations to the States by a Federal official in authority.

Sudden and unanticipated workload changes in a State's AFDC program which result from changes in Federal law and regulations, and/or rapid, unpredictable caseload growth.

Substantial statutory changes have been made in the AFDC program since 1981, primarily in three major pieces of legislation—the Omnibus Budget Reconciliation Act of 1981, the Tax Equity and Fiscal Responsibility Act of 1982, and the Deficit Reduction Act of 1984. The Office of Family Assistance (OFA) recognized that these changes in Federal statute and regulation could impact on the States AFDC error rates. As a result, OFA established modified QC procedures to provide States with relief from atypical QC error rates associated with the implementation of these AFDC changes.

A State could also claim that it developed and implemented a corrective action plan that was reasonably designed to reach the target error rate, but the target error rate was not met. In accordance with the regulations implementing the Michel Amendment, we consider the following factors in reviewing a State's waiver request:

A demonstrated commitment by top management to the error reduction program;

The sufficiency and quality of systems that are designed to reduce errors;

The effectiveness of systems and procedures for statistical and program analysis of quality control and related data, e.g., corrective action committees, special studies, statistical tests; and

The effectiveness of management and execution of the corrective action process and monitoring of progress.

For the first Michel year, Fiscal Year 1981, 28 States failed to reach their error rate targets. All 28 States requested waivers. Twenty-seven waiver requests were based on both timely-developed corrective action plans and circumstances generally beyond the State agency's control. Puerto Rico was the only "State" which requested a waiver based solely on circumstances beyond its control.

Thus, the overwhelming number of waiver requests for the first Michel period were based, in part, on corrective action activities, which, for one reason or another, were not entirely successful in achieving the State's error reduction goal. As a result of this, as well as our longstanding commitment to error reduction efforts, we at the Federal level have been providing technical assistance to help the States improve their ability to incorporate successful error reduction techniques in their corrective action plans and effectively manage a corrective action process.

One of the most successful technical assistance efforts has been in the area of technology transfers, where we work with States to arrange for them to share successful management techniques among themselves. In Fiscal Year 1984, 187 technology transfers were completed, 35 of which were directly related to error reduction techniques.

West Virginia and Arizona provide an excellent example of how well technology transfer can work. OFA Region III staff prepared a trend analysis of West Virginia's error rate, which included a projection of its error rate for Fiscal Year 1982 through Fiscal Year 1987. This analysis revealed that West Virginia would not be able to achieve the 4 percent target by Fiscal Year 1983 or the 3 percent target by Fiscal Year 1984 based on existing efforts. The OFA Region III staff also analyzed the State's corrective action process which revealed several weaknesses in its system.

The Region III staff presented their findings to Dr. Leon Ginsberg, who was then the Commissioner of West Virginia's Department of Human Services. As a result of these discussions, Dr. Ginsberg made the commitment—both personally and for his agency—to make error reduction a priority, and the State allotted the necessary resources to implement the corrective actions recommended by the OFA Regional staff. West Virginia then proceeded to reduce its error rate from 8.1 percent in the October 1981 through March 1982 period to a stunning 3.2 percent in the October 1982 through March 1983 period. This 60 percent decrease in West Virginia's error rate was achieved in just one year. Furthermore, our preliminary findings from the second half of FY83, April 1983 through September 1983, show that West Virginia has further reduced its error rate to about 2.7 percent, resulting in an annualized FY83 error rate of just under 3 percent.

Subsequent to West Virginia's success, OFA Region IX staff arranged for Dr. Ginsberg and the Region III staff to visit Arizona to share the successful techniques employed in West Virginia. Arizona has since appointed a Corrective Action Coordinator and established a Performance Review Team to reduce its error rate. OFA anticipates the same type of favorable error reduction results in Arizona, due in large part to the technology transfer effort.

OFA is continually working on these and other technical assistance efforts. For example, we have produced various publications and other informational materials for the States on specific actions that have proved successful in reducing error rates. OFA efforts include:

A "Compendium of Error Reduction Techniques" which describes 29 techniques that have reduced errors in one or more of the seven highest quality control error elements;

An "Interview Skills Training Abstract" which describes 15 training programs from nine States that are specifically geared towards reducing errors and preventing fraud;

A videotape on error-prone profiling which illustrates how such profiling can help reduce errors (which incidentally is one of the techniques our Regional staff used to analyze West Virginia's error problems);

A "Skills Directory" that lists State and local experts in various management areas of the AFDC program;

A "Digest of Fraud Control Techniques" which describes successful fraud control practices in nine States; and

A comprehensive training program entitled "Training Techniques for Error Reduction" that is specifically geared toward reducing errors in such error-prone categories as earned income, continued absence, and living with a specified relative.

In addition to these publications, we routinely provide information that we have developed, upon request, to the States. These include packages on numerous error reduction techniques, including: interviewing techniques; bank matches; reducing enumeration errors; and reducing willful client misrepresentation.

None of these efforts is a substitute for firm State commitment to error reduction. The evidence shows that once the commitment is made, errors can be controlled. And we are continually working with the States to help them achieve, and, like West Virginia, to even exceed their targets.

In addition to working with the States on specific error reduction techniques, OFA is also working to produce the national error rate data on a more timely basis and to refine the good faith waiver review process. Specifically, we have:

Automated the transmission of QC data to the Federal agency through minicomputers, which already have been installed in each State;

Established, through regulations, a monthly State AFDC sample completion requirement, as opposed to a quarterly system;

Established, through regulations, a threshold for waiver consideration and a requirement for more prompt submission of waiver requests;

Established, through regulations, a ten-day timeframe for receipt of state records requested by OFA regional staff;

Developed a system to track State appeals of difference cases to ensure expeditious processing; and we are revising the weights and factors for the good faith waiver process in an effort to more clearly define the type of documentation that States should submit, with the goal of simplifying both the States' preparation efforts and the Federal review efforts.

As noted earlier, all 28 States subject to disallowances for AFDC errors in FY81 submitted waiver requests. SSA's recommendations on these waiver requests are currently pending review in the Office of Secretary. Should the waiver by denied, in whole or in part, the usual disallowance process would be applied, and the State may then request a reconsideration of the disallowance issues by the SSA Commissioner or submit an appeal to the HHS Grant Appeals Board.

Once the decisions are released on the FY81 waiver requests, we anticipate the quick release of the FY82 national error rates and will individually notify States which are subject to a potential disallowance. We anticipate releasing the FY83 national error rate data in early FY85, and the FY84 national error rate data in late FY85.

In FY81 alone, nearly $1 billion in AFDC benefits were paid to individuals who were either not legally entitled to any benefit or were not legally entitled to the benefit amount they received.

Of the $1 billion in misspent FY81 funds, the maximum sanctionable amount is $73.5 million. This $73.5 million represents less than 8 percent of the total erroneous expenditures, and only 1 percent of the total Federal AFDC expenditures for that year. While the annual fiscal disallowance system is as important component of error reduction efforts, clearly much more needs to be done.

Over the next five years, assuming current error rate projections, we estimate maximum potential disallowances of $1 billion: in FY82 potential disallowances of $99 million; FY83 potential disallowances of $180 million; FY84 potential disalllowances of $234 million; FY85 potential disallowances of $220 million; and FY86 potential disallowances of $198 million.

Simply put, the threat of sanctions has reduced States' error rates. Since the advent of error rate targets and sanctions, we have seen AFDC error rates fall to 7.7 percent in FY81. This is the lowest annualized rate since we began keeping national statistics and a significant improvement over the national average error rate of 16.5 percent in 1973. Further, we project that the AFDC error rate will continue to decline. Currently, we project a national average error rate of: 7.0 percent in FY82; 6.7 percent in FY83; 6.3 percent in FY84; and 6.1 percent in FY85. Preliminary data for FY82 indicates that we are right on target with the 7.0 percent figure and that the FY83 error rates may be even lower than our estimate.

The continual decline in error rates is not happening without a lot of work from both the States and Federal government. As noted earlier, this effort is extremely important—as we get the error rates down, we demonstrate that we are increasingly responsible and efficient administrators of the public trust. We improve the image of the AFDC program which benefits everyone—the lawmakers, the taxpayers, the administrators and the recipients.

I would be happy to answer any questions you may have.

Mr. MATSUI [presiding]. Thank you very much, Ms. Ross. We appreciate your testimony and the fact you are here on presumably the next to the last day of the session—at least we hope it will be the next to the last day of the session.

You mentioned that you feel that the fact that there are financial penalties, in fact, is inducement to get States to have a better quality control system in the AFDC Program. Obviously that probably is true to some extent. But with the time lag, do you think it has as much force as you would like it to have in terms of notification of when the errors actually occur?

Ms. ROSS. Mr. Chairman, I am glad you asked that question because I know that is something Governor Blanchard was concerned about in his testimony and I am pleased to have the opportunity to explain it from my point of view.

The fact of the matter is, that the way the QC Program operates is the States conduct their own review and the results are sent, on a continual basis, to the Federal Government. As States complete their reviews, they come to us and we complete our subsample reviews. Similarly, when we make our findings, we notify the State at that time, and the State has the opportunity to appeal any differences in the Federal results. Thus, the State is immediately aware of the fact that a difference was cited and that would, I think, answer some of the problems that Governor Blanchard and some of the committee members may have had regarding the States' ability to be informed of the Federal QC results on a timely basis. Because, as soon as each case determination is made, it is transmitted to the State. Thus, the States are aware of their AFDC error rates well before they are officially released by HHS.

Mr. MATSUI. Usually knowing how government works, until a final determination is made, hard judgments and hard decisions really don't occur. That seems to be one of the problems, at least from the sense I have in talking to others and hearing Governor Blanchard.

Ms. ROSS. I think the important distinction to draw, Mr. Chairman, is that these difference cases are decided throughout the year. In other words, all the decisions on the difference cases are not made right before the Federal Government issues the final error rate.

So, in fact, this information provides feedback to the States continually throughout the year. Also, I would like to point out that the States do have the ability to analyze QC data. They have their own error rate they are tracking and they can plug that back into the system and continue to use that data. There is a lag time in resolving the difference cases because of the appeal process we provide the States to challenge our findings on the difference.

If the States do not agree that an error exists, they can apply for reconsideration to the regional administrator for family assistance. If the Administrator sustains the difference finding, the State has the opportunity to appeal to the regional commissioner for Social Security.

Mr. MATSUI. What about Mr. Rangel's statement which I think makes a lot of sense. That if a State has a financial stake in making sure that their program works efficiently and without many errors, shouldn't that be enough in terms of quality control?

Wouldn't the States themselves try to do what they can to improve their system? Is there a need for major financial sanctions that do have a time lag to them?

Ms. ROSS. I certainly understand your question, Mr. Chairman, and Mr. Rangel's comment. States match at some rate around 45 to 50 percent, as Mr. Rangel mentioned. It varies from State to State. The fact is they were matching at that rate in 1973 and the error rate was 16.5 percent. It was not until the threat of fiscal sanctions came in that the error rates really started to be reduced.

So it would appear at least from what I see and what statistics show relative to the progress on error reduction in the last 8 years fiscal disallowances do provide an incentive to reduce errors and that matching responsibility alone does not.

Mr. MATSUI. But I don't know if that is entirely accurate though, because many of the States began in the early seventies, late sixties, but mainly early seventies, many of these welfare-type programs in a major way.

That is probably why the error rates were so high. Then errors would begin to go down once the States had experience, tremendous experience with many of these programs. That would be my understanding of some of that from an historical perspective.

Ms. ROSS. In fact, the QC system started in 1963, and has been modified through the years. That is in my complete testimony, although I did not allude to the total historical basis in my oral testimony today.

As my prepared statement indicates, there were substantial problems in getting States to comply with quality control even in the early seventies to midseventies. In fact, most States were not submitting corrective action plans and were not conducting QC reviews and there were tremendous problems until 1975.

Mr. MATSUI. One question I have then, regarding if, in fact, fiscal sanctions do work. Recently HHS came up with new regulations on their administration of the State supplemental programs [SSP] that the States fund. And, of course, now the Federal Government has taken the position that they will not pay back the States for the errors that, in fact, they made overseeing SSP.

They have about a 4.8-percent—I shouldn't say "they," but the Federal Government has about a 4.8-percent error rate. What kind of assurances do we have that the Federal Government or HHS will do what it can now to properly administer their program and reduce their error rate to 3 percent without these fiscal sanctions.

Ms. ROSS. Mr. Chairman, as you know, I do not run the SSI Program.

Mr. Matsui. I understand that, but I am assuming the administration is consistent.

Ms. Ross. I am aware of the situation and I am happy to respond with the information I have on that situation. It is my understanding that unlike our statute which requires that States meet the 3- and 4-percent tolerance levels and that fiscal disallowances be taken unless a good faith waiver is granted, there is no such statutory provision for SSI.

The payment of Federal fiscal liability was a regulatory decision made by the Department some years back applicable only to supplemental SSI payments which the Social Security Administration administers under contract with some States. In fact, SSI has made payments since 1975 to the States. But, as you are well aware, we have never yet taken a fiscal disallowance in the AFDC program.

I am also aware that the House just passed some SSI legislation which did not deal with this issue. That is, it made no change to provide a statutory requirement that SSI pay funds to the States based on error rates.

Mr. Matsui. I still don't understand the difference. In terms of the overall thrust, it seems to me there is somewhat of an inconsistency there.

I have to believe there is an inconsistency there. Why is it that the Federal Government does not need, or HHS does not need some kind of fiscal sanction incentives to get their error rate from 4.3 percent down to 3.0 percent on SSI administered programs, that is, State money, and why is it, however, on the other side of the coin you do need to use fiscal incentives and sanctions against States to get them to improve their error rates?

Ms. Ross. As I said, Mr. Chairman, I think a key difference is the fact that our 4 percent and 3 percent tolerances are statutorially required.

Mr. Matsui. I am not speaking about statute. Congress isn't always right.

I am saying, why is it from your perspective and from your perspective as a professional and speaking on behalf of the administration. Not the fact that you are required to do it because of Congress or anything like that. I mean you can support legislation, oppose legislation. You can take various positions.

I don't want you to hide behind legislation right now. I am not suggesting you are.

Ms. Ross. Thank you, Mr. Chairman. From my perspective as the person in charge of the Federal responsibility for the AFDC Program, I look at the issue like this.

For AFDC we are talking about the Federal Government allowing matching, Federal matching dollars, for errors up to 4 and 3 percent. And the question to me, as I look at it, is how much of an erroneous payment does the Federal Government want to match for? I am not intimately familiar with the inner workings of the SSI Program and things that cause errors there. I can tell you I am aware of things that cause errors in AFDC.

I provided in my prepared testimony examples of the kinds of activities we have undertaken to reduce AFDC errors.

Mr. Matsui. It would just seem to me in terms of the basic thrust, I understand there are differences in programs and what-not, but the basic thrust of your statement is that fiscal sanctions, in fact, do work, and they are major incentives to get States to comply and try to be more efficient.

I just think that that same kind of argument can be made regarding the Federal Government. But recent regulations would disapprove that. Because HHS just decided they weren't going to pay for their 4.8 percent errors, that they commit, with State money under the SSI Program.

It just does not make sense and it is a major inconsistency. It seems to me there should be some rethinking. I don't think you are going to be able to explain that because, frankly, I thought about that for a long time, too, and there is no explanation.

It is just inconsistent. It seems to me that somehow you should get your heads together at HHS and talk about this and try to come up at least with a consistent program so that you wouldn't have people like me arguing that you are being inconsistent.

I don't care which way you go, but it seems it should be consistent. We wouldn't have it one way one day and another way another day just to benefit us on both sides. Let me ask you another question, if I may.

In West Virginia you say the error rate has gone down and is under 3 percent at this time?

Ms. Ross. That is what we are projecting for the first fiscal year 1983, yes, sir.

Mr. Matsui. I understand, at least from our staff in their analysis in checking that West Virginia's error rate now, has gone up again.

Ms. Ross. We do not have that information.

Mr. Matsui. Could you do me a favor? Could you check that?

Ms. Ross. I could certainly check it and provide it for the record.

[The information follows:]

According to the State QC findings, West Virginia's error rate increased from 3.2 percent for the April-September 1983 to 3.8 percent for the October 1983-March 1984 sample period. After the Federal rereview of the April-September 1983 sample period, the State error rate decreased from 3.2 to 2.8 percent. At this time we do not know the results of the Federal rereview on the State error rate for the October 1983-March 1984 sample period.

In West Virginia the commitment of high level State agency staff to reducing the error rate resulted in the marked decline of the State's error rate. However such initial commitment is only half the battle. Maintaining low error rates requires continuing commitment as well as developing a monitoring and management system to prevent future error rate increases. This ongoing maintenance of low error rates is the next objective for all States who have successfully reduced their error rate.

RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED FOR THE RECORD BY CHAIRMAN FORD

Question 1. Does the Administration expect to propose any changes in the AFDC program in the FY86 budget that will be submitted in January?

Answer. There has been no decision at this time on what, if any, legislative proposals for the AFDC program will be included in the President's budget which will be submitted in January 1985.

Question 2. Is the Administration considering any changes in the AFDC quality control policy? For example, will the Administration propose that States pay AFDC error rate sanctions prospectively, rather than at the end of the fiscal year?

Answer. As I have noted, decisions on the FY86 budget proposals have not yet been made.

Question 3. In your testimony you indicate that with OFA technical assistance, West Virginia was able to dramatically lower its AFDC error rate.

What specific actions did West Virginia take to reduce the AFDC error rate?

Did the State's benefit costs decline or were the improvements only in paperwork errors?

According to West Virginia's Human Services Commissioner John Burdette, the AFDC error rate has begun to increase, rising to 4.5 percent in FY84. Does this change your analysis of the West Virginia experience? What are the reasons for the increase in West Virginia's error rate?

Answer. As I mentioned in my testimony, one of the keys to West Virginia's success has been the commitment of top management to error reduction. This was embodied in the designation of one individual as the Corrective Action Coordinator—the manager solely responsible for implementing, monitoring and evaluating corrective actions.

Another key initiative was the formation of a special review team. This team (which included the Corrective Action Coordinator) visited the area offices with the greatest error problems. The information provided by these reviews has been invaluable in formulating corrective action. In addition, this initiative provided accountability, for the first time, for the contribution each office was making to the State's problem.

There was no increase in administrative costs resulting from these initiatives. The activities represent a shift in priorities and were implemented with existing resources. Furthermore, the reduction in error rates represents a concomitant reduction in the amount of erroneous payments; in the first half of FY1982 there were approximately $2.3 million in erroneous payments and in the first half of FY83 there was less than $1 million paid erroneously. Obviously these two factors indicate West Virginia's success represents far more than a reduction of paperwork errors.

Finally, our most current estimate is the West Virginia's error rate is 3.8 percent for the first half of FY84, only a small increase over the 3 percent rate in FY83. Without a major study of West Virginia's situation, such as was undertaken by OFA's Regional Office before our initial technical assistance effort with the State, we cannot advise you of the specific reasons for any increase in West Virginia's error rate. We can point out, however, that control of error rates is a never-ending job. Any new increase in West Virginia's error rate does not negate the corrective action efforts which brought the error rate down in the first place. To maintain low rates, constant attention is needed in the area of program management.

Question 4. Is there any evidence that States can pay the error rate penalties that will come due over the next years without hurting beneficiaries?

Answer. The Department has taken various disallowances for other reasons in past years. There is no evidence that States have reduced benefits to meet these costs.

In FY81 nearly $500 million in State funds were spent erroneously. If States reduce erroneous payments now and in future years, the amount saved would more than cover disallowances that will be assessed for prior years.

In addition, I believe that the penalties, even if the maximum possible amounts were assessed, are well within the ability of the States to assume. The maximum penalties are only a small percentage of the AFDC expenditures of the penalty-liable States.

When compared to the extraordinary Federal deficits we are encountering, I believe the modest disallowances incurred by the States should be financed by the States in the manner Congress directed since 1979. The Department will continue to share fully in the cost of erroneous expenditures below the statutory limit.

Question 5. On page 2 of your testimony you state: "It is important to remember that the QC system measures erroneous AFDC payments. These consist of overpayments to eligible families who receive more than they are entitled to and to families who are not entitled to AFDC."

The current QC system really measures more than this.

In fact, aren't error rate penalties also based on technical errors which, when corrected, do not change the amount of the AFDC payment or the family's eligibility?

If you remove technical errors, what do the error rate penalties total?

Answer. the term error, or erroneous payment, means that the case failed to qualify for Federal matching monies in accordance with Federal regulations and statutes. The so-called "technical errors" are actually errors in ensuring that statutory requirements for eligibility are met, such as failure to provide a Social Security number, failure to assign child support rights and failure to register for the Work Incentive (WIN) program. If there is a failure to comply with these, just as with any other statutory requirements, a payment made would not be eligible for Federal matching funds. In addition, if these requirements had been met, it is possible that the payment would not have been made as a result of the information gained. For example, clearance of a Social Security number with banks or earnings records may have uncovered excess income. The requirement to register for WIN may have resulted in employment.

In general we estimate that these errors account for approximately 1 percentage point of the error rate. For FY81, if the amount associated with these errors were excluded, the disallowance would have been $35.7 million.

Question 6. On page 17 of your statement you predict that the AFDC error rate will continue to decline in the years ahead. What is the basis for this prediction? Does it assume the sanctions will be imposed or is it based solely on an analysis of the trend in the national error rate?

Answer. As stated in my testimony, we project the AFDC error rate will continue to decline. This prediction is based on the present trend in national error rates given the continued incentive, provided by the disallowance policy, for States to reduce errors.

Mr. MATSUI. If, in fact, our analysis is correct, could you tell us whether or not you would change your analysis on the whole West Virginia experience, and if not, why, and perhaps explain to us why, from analysis you might do, why their error rate might go up.

I know it has gone up, but I think it is only appropriate to give you an opportunity to check it and come back to us in writing on it.

Ms. ROSS. I appreciate that, Mr. Chairman, as long as your staff will make available to me the findings they have so we can look at those.

Mr. MATSUI. Right. Do you feel shortly you will come out with your decisions on the waivers in terms of the 1981 sanctions?

Ms. ROSS. Mr. Chairman, I am hopeful the results of the 1981 waiver request will be issued very shortly.

Mr. MATSUI. Do you happen to know about when that might occur?

Ms. ROSS. Mr. Chairman, I do not have any definite date for that. They are currently in review in the Office of the Secretary and I have no scheduled release date. I know the Secretary is meeting competing demands right now and this is one of the many things she is trying to deal with.

Mr. MATSUI. You know, Mr. Stockman testified not long ago before our subcommittee, I believe it was. He mentioned there may be some attempt to change the method of payment on the issue of error rates. Do you know of any move in your department now where this may occur, where there may be a prepayment?

Ms. ROSS. The only situation I can think of that you may be alluding to, Mr. Chairman, if I am understanding you correctly, would be the change in TEFRA made for the medicaid program.

Mr. MATSUI. I see.

Ms. ROSS. For prospective fiscal disallowances?

Mr. MATSUI. No, we are talking about in the future. In other words, something that might be brewing in the department itself at this time in terms of the sanctions. In the coming budget, for the 1986 budget.

Ms. ROSS. Well, we are working on the 1986 budget right now, and I am not aware of anything at this point in time.

Mr. MATSUI. OK. At this point in time you, yourself, are not aware of any kind of effort made for prepayment or change-in-payment system for the error-rate sanctions for States.

Ms. Ross. No, Mr. Chairman, I have not been involved in any discussions like that.

Mr. Matsui. OK. Would it be—well, could you check with your Department and at the same time you get back to us on the West Virginia experience in writing, and we hope that is within the next 30 days or so. If you could at that time also advise us whether there is any effort to make any changes in the payment of the error-rate program, could you notify us of that, too, and do a little checking?

Ms. Ross. Mr. Chairman, I can pledge to check. As you know, the President's budget is made available in late January, or early February of the next fiscal year. And so I will see what I can find out.

But I can make no promises.

Mr. Matsui. If something is brewing there, you can just let us know, perhaps. You know, I am afraid I might have to vote.

I think I have 6 minutes. Would you mind waiting here? I don't know if we have other questions. There may be other members coming and I will be back within 10 minutes.

[Recess.]

Mr. Matsui. The subcommittee will resume.

I apologize for the running over to vote. I just have a few more questions, Ms. Ross. I appreciate your waiting here. There are a couple questions that I have regarding the letter that the staff had directed to Secretary Heckler that have not been satisfactorily answered, at least in your testimony, mainly because perhaps they were extraneous or not necessarily relevant to your main thrust. But I would like to ask them of you, anyway, to see whether you are in a position to answer some of these.

There was, in 1978, an 18-month study that began in 1978, to determine what factors there were beyond the States' control but contributed to the error rate; perhaps some issues such as the ones Governor Blanchard had raised, such as massive surge in unemployment, or some disasters, or these kinds of things. Apparently, this study has not been issued yet.

You are aware of this study; is that correct?

Ms. Ross. Yes, I am aware of the study, Mr. Chairman. I have not seen the study, but I am aware of it.

Mr. Matsui. Do you happen to know why the study has not been issued and released yet?

Ms. Ross. Mr. Chairman, based on the request you made in your letter, I did speak with the person at the Department who has responsibility for publishing the study. And it was explained to me that the detailed study results are not complete, but they are being reviewed at this time.

It has taken a long time to release the study because the data manipulations required for the report are complex, and it takes a very long time to produce that analysis. In addition, there were apparently technical problems with the first round of data.

But it is my understanding that we are, at this point in time, able to make some overview findings as a result of the study. One is that it does appear that certain socioeconomic factors affect the error rate to a small extent. However, even controlling for these factors, such as high population density in large urban areas there are still tremendous variations in error rates from State to State.

Unfortunately, it appears there is no equitable way because to control or adjust for the socioeconomic factors across the States.

While there may appear to be some correlation—between a large city, for example, and high error rates—I would point to the example of Los Angeles, CA. L.A. has an error rate of 3.8 percent, compared to the projected State error rate of 4.6 percent for the second 6 months of fiscal year 1982; and L.A. has many of the problems that Governor Blanchard alluded to, or many of the same circumstances: high population density and an Unemployed Parent Program.

I think my point would be that if L.A., the largest city in the country, is able to overcome those circumstances, then other cities should be able to do the same.

Mr. MATSUI. I would just have a difficult time comparing Detroit to Los Angeles. It just doesn't compare, you know. Detroit has different kinds of problems. The density is even larger than L.A. And I do know for a fact that—I don't know what it is in Michigan—but I do know for a fact that in California we have had, in the past anyway, probably at the time these studies were being made, a sufficient level of Federal and—State and local employees to handle much of the incoming casework to make sure that the error rates are lower. So I don't know if I would necessarily compare Michigan and California in that respect.

But I do have in my legislation the fact that population density is a factor that should be considered, and these kinds of things. I just hope this report will come out shortly so that we will be able to evaluate it.

Do you happen to know about the date when this might happen?

Ms. ROSS. I don't have a definite date, but it is my understanding it will be within the next few months.

Mr. MATSUI. Good.

OK, in view of preliminary information you have that in fact population density may have some reason that the error rates may be affected by population density and other factors, if in fact the study shows that, I would assume that the department will be flexible and will take a look at it and have an open mind in terms of changes that might be made.

Is that correct?

Ms. ROSS. I could not speak to what the Department would be willing to do. But I can say—I would like to restate, just to be clear—that there were some correlations found. But as I have said, I have not read the study——

Mr. MATSUI. I am not suggesting you have. I have said, if, in fact, the findings of the study are such that some of these variables do in fact affect error rates, that you would in fact consider them in your department, and your department would consider them in perhaps adjustments in the programs that you are working on?

Ms. ROSS. I think we would be willing to look at them, Mr. Chairman. But, as I said before, the problem is that even adjusting for those factors, there still are variations between the error rates of the States.

Mr. MATSUI. I can't believe that your program is perfect. There is always room for improvement, isn't there? That is the attitude—I am going on in terms of looking at your program and quality control program, that there are always grounds for improvement. And if we work together, we can come up with improvements.

I assume that to be your attitude, and the attitude of your department, as well; is that correct?

Ms. Ross. We believe that the quality control system, as it exists, is a good and sound system. I am sorry I do not have a position on your bill.

Mr. Matsui. I understand that.

Ms. Ross. We did undertake analysis of it. In fact, one of the questions we had in our preliminary review of the bill was exactly how you determine the point values you recommended in your legislation. Clearly, it is something we would be willing to look at further, and would like to look at further.

Mr. Matsui. Right.

In our letter, we did ask whether you had a position on 6295, and apparently you don't then; is that correct?

Ms. Ross. Mainly due to insufficient time to develop a position and get it through the Department. But we are working on that, and I assure you we will get it to you as quickly as we can.

Mr. Matsui. I did indicate in my opening statement that this is a first step; this piece of legislation is a first step in terms of coming up with what we hope to be some good proposals. And we are certainly not locked in concrete in the numbers we used in terms of variables, and they are just not locked in concrete, either.

We would hope you would assist in providing information, such as the 1978 study and other information, in order to improve the system somewhat.

Why has it—I guess perhaps Mr. Pease asked this question—but why has it taken so long to make a determination on the waivers at this time?

Ms. Ross. As I indicated earlier, Mr. Chairman, it was a voluminous task. The fact is, the States submitted many pages, from your State alone we received 59,000 pages.

Mr. Matsui. We gave you 35 boxes, if I am not mistaken.

Ms. Ross. Yes, Mr. Chairman; that is correct—which were delivered to my office, I might add. And it took a very long time to review the submittals, I assume you are familiar, or members of your staff are familiar, with the weights and factors we sent out to the States indicating how we would be looking at and reviewing the waiver requests, and what kinds of criteria we would take into consideration in making the determination.

In going through that many pages, we wanted to guarantee that the States had a thorough review and adequate consideration on the part of the Federal Government, not only a thorough State-by-State review but comparability from State to State. We reviewed waiver requests from 28 different States and we had to be sure that the results for all States are comparable. It took a great deal of time for my staff to do that. We learned a lot from the first year. It was the first time we had to do anything like that. I think first times almost always take longer.

We feel that we are now able to refine the process. For example, we are looking at increasing the number of our reviewers as well as updating and changing the weights and factors to give the

States better guidance on what kinds of information should be included in the waiver requests.

Mr. MATSUI. OK.

In terms of the 1986 budget, to your knowledge—this is only in terms of your knowledge—are you aware of any AFDC budget cuts planned for the fiscal year 1986?

Ms. ROSS. AFDC budget cuts?

Mr. MATSUI. Yes.

This is in terms of your personal knowledge, now, and as a member of your department.

Ms. ROSS. As I indicated, Mr. Chairman, I have been involved in some discussions in terms of the 1986 budget. But, at this time, it would be inappropriate for me to discuss the depth and specifics of everything. First of all, it is preliminary; no final decisions have been made. So I think it would be inappropriate for me to be having those kinds of discussions in a public forum when final decisions have not been made.

Mr. MATSUI. Well, let's see if I can put the question another way. I may not be able to, to your satisfaction, but—I guess we will have to wait until January.

I can understand your concern. You can't be making statements that Dave Stockman could affect.

One of the things that troubles me about the whole issue of quality control is—and irrespective of motives and why the legislation was passed, or anything like that—the ultimate effect of these sanctions, if in fact they were ever imposed on the States, will be either to cut back on the staffing of the programs, which in turn will affect adversely your quality control and efficiency, or you would end up reducing benefits. I just think that that is the way it will end up.

Very few States are going to raise taxes in order to accommodate a $35 million or $15 million penalty due to the Federal Government. I just see that that will be the situation. That will be the true effect—either a cut in the programs by benefits, or cut in terms of the administration of the programs, which, in turn, will increase the error rates, and it will be a vicious circle the States will have to continue to live with.

It just seems to me that you and we—because we have a responsibility, too—should come up with a way that makes a little more sense, especially at a time with the shrinking pie.

I would like you to respond to that, if you could.

Ms. ROSS. Mr. Chairman, clearly the States will be confronted with a difficult situation.

I would like to make a couple points in response to that.

Mr. MATSUI. Sure.

Ms. ROSS. I will acknowledge it will be difficult for the States.

I think one thing that is important to keep in mind is that the States have had adequate notice that this tolerance was going to be required. The legislation was passed in 1979. Unfortunately, we are still talking about a 1981 decision in 1984. As a result, the States have had additional years to be aware of the fact that perhaps they need to do some budgetary planning in the event that a fiscal sanction should be taken. So, at least we are not hitting the States out of the blue.

Mr. MATSUI. I can respond to that. I just know the States don't operate that way. They would love to have long-range planning, but they operate just like we do; in fact, a little worse than we do.

We are working on a continuing resolution, and we don't know how long it is going to go. It is a mess. We don't know from day to day if we will have a budget. That is pretty much the way they operate, too, to a large extent.

So I don't think their planning is for the next $35 million hit or $15 million hit. I just don't see that as happening.

But, anyway, go ahead.

Ms. ROSS. In large measure, you may be right. But I know of at least a few cases where States have contacted us asking what they should include in their budgets, States which were liable for fiscal sanctions for the 1981——

Mr. MATSUI. I hope you people would say you would grant the waiver, but go ahead.

Ms. ROSS. I would not deny that is what the hope is, Mr. Chairman.

I think it is important to point out, also, what these disallowances represent as a percent of the AFDC expenditures in a State. For example, in most of the States that are facing potential sanctions, the disallowance amount accounts for less than 1 percent of the State expenditures in the AFDC Program currently. So we are talking about significant amounts of money, but percentagewise, relative to what the State is spending in the entire program, not that large an amount. In fact, what we are talking about is $73.5 million in sanctions for over $984 million spent erroneously--really only 8 percent total erroneous expenditures.

Mr. MATSUI. But that is concentrated in a few States that have severe problems, though: Michigan, $15 million; California is $35 million.

Ms. ROSS. Michigan is not subject to disallowance in the first period.

Mr. MATSUI. But California has approximately half of that then, $35 million. We have 10 percent of the population; I grant that.

Ms. ROSS. And the $35 million represents about 1.38 percent of California is total AFDC expenditures on an annual basis. So even though California is clearly our largest potential disallowance, it represents a relatively small portion of the AFDC expenditures of the State of California.

Mr. MATSUI. I can't speak to that, because I think our Governor and legislature would not say that that is a small portion of the budget, because that is a very important part of the budget to many people in California. So I think that they would say that that amount, irrespective of the percentage, is a large sum that they have to deal with.

But go ahead.

Ms. ROSS. And, finally, I would say that it is obviously impossible for me to try to project what States will do, how they will deal with the fiscal problem. However, with respect to your concern that benefits not be reduced to the needy people who are receiving AFDC, obviously, we would be concerned about that, as well. In fact, in the conference report on the Michel amendment the Senate expressed Congress' intent that in no way should imposition of fiscal disallowances result in benefit reductions. I think benefit reductions are something the States would do as an absolute last resort. Looking over the past 3 years we see a situation where many States were faced with severe budgetary constraints; yet, 37 States raised their payment standard for the AFDC Program since fiscal year 1981. So, in fact, the State legislatures are finding some way to balance the benefit payments to the needy with the budgetary constraints they are facing.

Mr. MATSUI. But that is because of the Federal cuts. That is why they had to increase them; just to stay even.

Ms. ROSS. I am not sure I understand.

Mr. MATSUI. Your statement that the States—how many States did you say increased benefits?

Ms. ROSS. Thirty-seven States increased their AFDC payment standards.

Mr. MATSUI. Many of them had to increase just to keep even because of the Federal cuts in the programs.

Ms. ROSS. Well, in——

Mr. MATSUI. Because of disregards and things like that.

Ms. ROSS. In the AFDC Program, the States set the needs standard and payment standard for the program. The Federal Government does not set these.

Mr. MATSUI. I understand. But in California, we worked on that in 1981 and 1982, and California did not want to reduce their standards for the AFDC recipients. So they had to, obviously, increase the amount in order to keep even. That is what happened. That is why they have increased their amounts.

That is statistically correct. But the results were they just kept even. It was not a—because they wanted higher benefits to the recipients; they just kept even.

Ms. ROSS. I am still not sure I understand the chairman's point.

Mr. MATSUI. Was there a decrease in AFDC at the Federal level?

Ms. ROSS. A gross income limitation of 150 percent of the States need standard was imposed.

Mr. MATSUI. And many maintained their standards by increasing the amount they paid into the AFDC Program. That is what happened—at great sacrifice to the States, I might add.

Go ahead.

Ms. ROSS. Finally, in response to what the States would do if faced with this fiscal problem—I can say what I would do if I were the head of the AFDC agency in a State. I would make the best case I possibly could before the State legislature that it is time that we deal with the problem of erroneous payments; that, in fact, staffing reductions are not the answer; that it is sort of a "pay me now or pay me later" kind of proposition. And I would make the case to the State legislature that I would be totally committed to reducing errors, and would present the techniques and staffing that would be necessary to accomplish error reductions. I would ask them to trust me for a year or two to effect a reduction in the error rate, which eventually should result in reaching the targets and not having to face the threat of fiscal sanctions in the future.

Mr. MATSUI. Ms. Ross, the last question I have is, have you issued the 1982 error rates for the States?

Ms. ROSS. No, Mr. Chairman, we have not.

Mr. MATSUI. Do you happen to know when you might do that?

Ms. ROSS. We anticipate doing that immediately after the decisions are made on the 1981 waiver requests.

Mr. MATSUI. In other words, you don't want to hit them too hard at one time?

Ms. ROSS. We thought it was only fair, Mr. Chairman, since the 65-day clock for submitting a waiver request begins when the error rate is announced, to allow the States the opportunity to see the results of the first year review before announcing subsequent potential sanctions.

Mr. MATSUI. In other words, you have statistical information for the 1982 year in terms of the error rate, but you are not releasing them because you want to wait until after you release the waiver issue?

Ms. ROSS. We do have projected AFDC error rate data for 1982. But it has not been released by the Department yet. Because it has not been released by the Department, it is not considered final.

Mr. MATSUI. To follow through on one of your statements made earlier to one of my questions, it would seem to me to give the States an opportunity to prepare for their next fiscal year so that you might want to issue the 1982 error rates at this particular time, especially if there is nothing to prevent you from doing it, except perhaps you don't want to hurt the States' feelings—you ought to issue them now, and that way they will be in a position, frankly, to be able to take that into consideration for the 1986 fiscal year or 1985 fiscal year for some of their budgets.

Ms. ROSS. Mr. Chairman, as I alluded to in the very beginning of the question and answer session, in fact, the States have their own error rates on a monthly basis. So the States should be aware of what their error rate was for fiscal year 1982, at least the State finding, if not the adjusted Federal findings; which are very close to the State findings.

Mr. MATSUI. But I would think your official figures would be important, because that is the only way they could act. Otherwise, we can say, let's accept the State figures; and you are not willing to do that because you want your own control, which I understand. So you ought to issue yours, to be fair to the States.

Ms. ROSS. The fact is that the Federal findings usually result in about a 1-percent change, plus or minus from the States' findings. So the official error rates should not be significantly different from the States' error rates. There is plenty of information in the States' data on the existing error rates, and the States have to be able to do manipulation of it, analysis of it to determine the causes of the most prevalent errors and engage in error reduction activities.

Mr. MATSUI. It seems to me if you say they have it, why not release what you have and everybody can be happy; at least we know what is on the table. It just seems to me to make sense. If you think it is a 1-percent differential, why don't you issue yours, if it is not going to make a lot of difference?

Ms. ROSS. As I indicated, Mr. Chairman, once the error rates are issued in final, then the 65-day time limit for submitting a waiver request begins.

Mr. MATSUI. I know. But look how long it has taken to evaluate the waivers anyway. So it just seems to be, you know——

Ms. Ross. That is why we thought it important for the States to have the results of the first year waiver before having to submit the second year waiver request.

Mr. Matsui. Well, OK.

Thank you very much for your testimony, and we will continue to work with you on this issue. I know you probably don't want to work with us on this; you think the program is pretty good now. But we will want to work with you, and we will probably want to continue these hearings next year again.

Ms. Ross. We will continue to provide whatever information you and your staff need, Mr. Chairman, at any time.

Mr. Matsui. OK. Thank you.

Ms. Ross. Thank you.

Mr. Matsui. At this time, I would like to call the National Council of State Public Welfare Administrators, Patricia C. Schramm and Joseph Goldberg.

Thank you very much for appearing today. Both of your prepared statements will be included in the record.

At this time, I would like to call on Patricia Schramm to testify.

STATEMENT OF PATRICIA C. SCHRAMM, SECRETARY, DELAWARE DEPARTMENT OF HEALTH AND SOCIAL SERVICES; AND CHAIR, NATIONAL COUNCIL OF STATE PUBLIC WELFARE ADMINISTRATORS, AMERICAN PUBLIC WELFARE ASSOCIATION

Ms. Schramm. Thank you. We certainly appreciate this opportunity to testify before this subcommittee on the issue of quality control.

I am Patricia Schramm, secretary of the Delaware Department of Health and Social Services; and chairperson of the National Council of State Public Welfare Administrators.

Joining me is Joseph Goldberg, secretary of the New Mexico Department of Health and Environment; and chairperson of our council's ad hoc committee on quality control.

We appreciate very much the efforts of the subcommittee to address the problems with quality control and your willingness to continue this quest.

Reform of quality control is obviously a very complex and not particularly popular political subject, but there can be no doubt in our minds that it is needed. You have heard how the current system suffers from serious defects that are undermining sound administration of the AFDC Program and that puts States and the needy families we serve in an unacceptable jeopardy.

We especially want to applaud you, Mr. Matsui, for introducing H.R. 6295. That bill is aimed at fostering the continued reduction of errors and establishing a fair and reasonable basis, we think, for imposing fiscal penalties when error rates exceed Federal tolerances.

I am not going to go through the whole statement that was submitted in my behalf, but there are five general points I would like to make to provide a context for more specific views that Mr. Goldberg will present.

First, the State administrators place the highest value on quality control and achieving the highest level of payment accuracy we can in the AFDC Program. Every dollar spent in error hurts the States, just as it does the Federal Government. Billions of dollars have been invested in the States in efforts to detect and correct and prevent errors, and to modernize the management of this program. Most important, the Federal Government has not had to take one penny away from the States in order to achieve the significant improvements that have been made to date; nor do we believe fiscal sanctions are now needed to achieve the further error reductions that we all desire.

If, however, Congress deems otherwise and decides to retain some form of penalty policy in AFDC, we strongly recommend that, unlike the current system, it be based on fair and accurate procedures.

You are going to hear from Joe Goldberg some specifics on what is wrong with the current system. I would like to give you just one example of what is wrong with the current system, from our point of view in Delaware. We have applied for and received a demonstration grant from OFA in our efforts to reduce error payments in the State of Delaware. The main thing that we are doing with that grant is creating a series of studies and statistics that will enable us to better understand what is causing our error. The reason that we have to do that is because the quality control program, as it is currently constructed, does not yield all of the information we need to improve the management of the program.

Second, the administration of AFDC is a responsibility which is and should be shared by both the States and the Federal Government. So is the responsibility for combating errors. We believe there must be a mutual Federal-State commitment to finding the best means of error control; and a mutual willingness to share the glory when the means chosen work, and the blame when the means fail. That is the true meaning of partnership.

Third, the quality control system must be designed to accommodate the fact that mispayments occur not only because of administrative dysfunction but also because of complex Federal policies. Means tested programs such as AFDC are by design some of the most complex endeavors in the public sector. Program staff have to take into account a myriad of factors when determining a family's eligibility for benefits. Thus, they are going to make mistakes. When basic policies are changed to restrict eligibility, as was the case with the Omnibus Reconciliation Act of 1981, the list of complex factors grows, the complexity and ambiguity in making decisions about eligibility increases, and thus the potential for errors increases. The problem is further compounded by the failure to coordinate the rules between the various programs; between food stamps, for example, and AFDC. Put simply, we don't feel that the States should be penalized for Federal requirements that are inherently error prone. You have heard examples of that earlier today.

Four, the existing quality control system measures only one aspect of performance, and that is payment accuracy. There are certainly other factors by which our performance is measured. The cost of administration is a measure of any administrator's performance. Delays in processing applications are certainly a measure, or should be a measure, of our performance as should be the treatment that we accord applicants and recipients of these programs.

All of these are an integral part of our work, as are our attempts to help recipients become more self-sufficient or to provide adequate benefits.

Any welfare administrator walks a tight line between program administration and the kind of concern and advocacy that is also our responsibility. The almost exclusive emphasis on payment accuracy in this program in recent years, we believe, has distorted the aims of AFDC and has possibly deterred the States from making program improvements that might have increased the likelihood of error. It also has, I believe, deterred States from making some management improvements that in fact might in time have reduced errors, since when you make changes in program operaction you are always taking the risk of increasing error. The environment that we live in today, with the almost exclusive emphasis on payment accuracy in the short run, is such that we just don't feel that we can take those risks any more.

Five, the shortcomings of quality control, as I think everyone knows, are not unique to AFDC. Both Medicaid and Food Stamp Programs share these problems. Indeed, some aspects of these other programs are even worse; for example, the use of prospective sanctions in Medicaid to penalize the States in advance, rather than after their performance. We recognize that the Ways and Means Committee doesn't have jurisdiction over Medicaid and food stamps; however, we certainly hope that you will have an opportunity to share the results of the work you are doing on AFDC quality control with your colleagues in the Energy and Commerce and Agriculture Committees.

In summary, we support quality control, and we support being held responsible for the results of our administrative efforts, so long as our performance is fairly measured with due regard for both the intergovernmental partnership on which AFDC is based and for the full range of our managerial and governmental responsibilities.

Thank you.

[The prepared statement follows:]

Statement of Patricia C. Schramm, Secretary, Delaware Department of Health and Social Services, and Chair, National Council of State Public Welfare Administrators of the American Public Welfare Association

The state human service administrators thank the Subcommittee on Public Assistance and Unemployment Compensation for this opportunity to testify on the improvements needed to achieve fairness and accuracy in the quality control requirements for the AFDC program. I am Patricia Schramm, secretary of the Delaware Department of Health and Social Services and chairperson of the National Council of State Public Welfare Administrators. Joining me is Joseph Goldberg, secretary of the New Mexico Health and Environment Department and chairperson of the Council's Ad Hoc Committee on Quality Control.

Let me begin by expressing our deep appreciation for the efforts the Subcommittee, under Chairman Ford's leadership, has made during the past year to promote reform of the AFDC quality control system, and your willingness to continue this quest. The reform of quality control may be complex and not especially popular, but there can be no doubt that it is needed. The current system suffers from serious defects that are undermining sound administration of the AFDC program and that put states and the needy families we serve in an unacceptable jeopardy. Your desire to discover the truth about quality control is welcomed by every state welfare official in this country.

We want especially to applaud Mr. Matsui for introducing H.R. 6295, the AFDC Error Reduction and Quality Control Improvement Act, which is the focus of this hearing. Mr. Matsui's bill is aimed at fostering the continued reduction of errors and establishing a fair and reasonable basis for imposing fiscal penalties when error rates exceed federal standards. His measure deserves the full scrutiny of Congress. And it is with this end in mind that we have come here today to offer our comments.

Before turning matters over to Mr. Goldberg, who will discuss our concerns about quality control as it now operates and our views on H.R. 6295, there are five general points I would like to share with the subcommittee. These points constitute our overall perspective on quality control in the management of AFDC and are offered to provide a context for the specific views Mr. Goldberg will present momentarily.

First, the state human service administrators place the highest value on quality control and on achieving the highest levels of AFDC payment accuracy of which our agencies are capable. Frankly, we have no choice in the matter, since every dollar spent in error hurts the state's treasury just as it does the coffers of the federal government. Spurred by the desire to minimize the loss of state as well as federal funds, the states have lowered the AFDC error rate by more than half during the past decade—a record of accomplishment that we believe would compare favorably with that of any equally complex activity operated by the federal government or the private sector. Literally billions of dollars have been invested in efforts to detect, correct, and prevent errors and to generally modernize management of the program so that there is less opportunity for mistakes. Most important, the federal government has not had to take one cent away from the states for this progress to have occurred. Nor are fiscal sanctions now needed to obtain the further error reductions we all desire. If, however, Congress deems otherwise and decides to retain some form of penalty policy in AFDC, we strongly recommend that, unlike the current system, it be based on fair and accurate procedures. Fiscal sanctions do not have to be set at punitive levels—which threaten the states' ability to finance benefits and sound administration—for Congress to be confident that we will do everything possible to eliminate the errors within our control.

Second, the administration of AFDC is a responsibility shared by the states and the federal government, and thus, so is the responsibility for combatting errors. It is inappropriate for the Department of Health and Human Services to limit its role to measuring error and levying sanctions, just as it is wrong for the states to shut their doors to the kind of management assistance and guidance which the federal government is uniquely qualified to provide or facilitate. In other words, there must be a mutual commitment to finding the best means of error control—and a mutual willingness to share the glory when the chosen means work and the blame when they fail. This is the true meaning of partnership.

Third, the quality control system must be designed to accommodate the fact that mispayments occur not only because of administrative dysfunction, but also because of the federal policy that program administrators and line staff have to work with. Means-tested programs such as AFDC are, by design, some of the most complex endeavors of the public sector. Program staff must take into account myriad factors when determining a family's eligibility and benefits, and thus, mistakes will be made. When basic policies are changed to restrict eligibility, as in the Omnibus Budget Reconciliation Act of 1981, the list of factors grows, complexity and ambiguity rise, and the potential for error increases. The problem is compounded further by the failure to coordinate policy at the federal level with the food stamp program. Put simply, states ought not to be penalized for federally established requirements and procedures that are inherently error-prone either singly or in combination with one another.

Fourth, the existing quality control system measures only one aspect of program performance, namely, payment accuracy. To be sure, paying benefits in the right amount to only those who are eligible is an extremely important objective for those of us who manage AFDC. But it is not the only objective we are expected to pursue and achieve. Goals related to the cost of administration—including what we expend on quality control and corrective action—and to the treatment accorded applicants and recipients are also an integral part of our work, as are the attempts we make to help recipients become self-sufficient or to provide more adequate benefits. Let me quickly say that by no means are we suggesting these other responsibilities also be governed by some form of fiscal penalty. What we are saying is that they be given due consideration by federal policymakers in determining how the program is to be generally run and toward what ends. The almost exclusive emphasis on payment accuracy in recent years has distorted the aims of AFDC and possibly deterred states from making program improvements that, in accomplishing other worthy objectives, would have increased the likelihood of error. The situation can only get worse in the future as states face larger and larger penalties derived from unfair and unreasonable quality control requirements. A more balanced approach to program administration is sorely needed.

Fifth, the shortcomings of quality control are not unique to AFDC. Both the Medicaid and food stamp programs are seriously affected by similar problems. Indeed, in some respects the problems are worse—for example, the use of prospective sanctions in Medicaid, a policy which penalizes states in advance of, rather than after, their performance. We recognize that the Ways and Means Committee does not have jurisdiction over Medicaid and food stamps. However, we would ask that you share the results of the work you are doing on AFDC quality control with your colleagues on the Energy and Commerce and Agriculture Committees, in the interest of achieving needed coordination of policy across the three programs.

In sum, the state human service administrators support quality control and being held accountable for the results of our administrative efforts, so long as our performance is fairly measured, with due regard for both the intergovernmental partnership on which AFDC is based and for the full range of our managerial responsibilities.

Mr. MATSUI. Thank you very much.

STATEMENT OF JOSEPH GOLDBERG, SECRETARY, NEW MEXICO DEPARTMENT OF HEALTH AND ENVIRONMENT; AND CHAIRMAN, AD HOC COMMITTEE ON QUALITY CONTROL, NATIONAL COUNCIL OF STATE PUBLIC WELFARE ADMINISTRATORS, AMERICAN PUBLIC WELFARE ASSOCIATION

Mr. GOLDBERG. Thank you, Mr. Chairman.

I am Joseph Goldberg, secretary of the Health and Environment Department of the State of New Mexico.

I, also, am grateful for the opportunity to testify from the perspective of the States on the present quality control system and on H.R. 6295, introduced by yourself, Mr. Matsui, a bill addressing what I believe are some of the problems that presently exist in the quality control and fiscal sanction system.

You might ask what I, as a health commissioner, would be doing here talking about quality control and welfare programs. The reasons for that are three in number.

First, until relatively recently I was in fact the welfare commissioner in the State of New Mexico. As a consequence of that, I became the chairman of the National Council on State Public Welfare Administrators' ad hoc committee on quality control.

The views that I will express today do not necessarily reflect the views of all welfare commissioners. I do believe, however, over the last 18 months a fairly broad and bipartisan consensus has emerged among welfare commissioners and among Governors about the concerns of the current quality control system, and some of the problems that need to be addressed.

The perspective I bring today is one I take not only as a former administrator of welfare programs, but for 15 years prior to that, as a lawyer and teacher, I was an advocate for poor people and the recipients of these programs and an advocate for the programs that benefited them. As a welfare commissioner and as an advocate for poor people, I think that quality control in the administration of these programs is of the utmost importance. It is absolutely essential that every dollar appropriated to these programs goes as much as is humanly possible to the appropriate people and is not wasted by going to people who are inappropriate beneficiaries.

I think, however, that a quality control system must be an effective management tool; and if one is to base fiscal sanctions upon the States on a quality control system, that system must recognize this imperative. Unfortunately, the current quality control system is not an effective management tool; and the fiscal sanctions, based on this current quality control system, will have an unintended and, in my estimation, perversely negative effect by not only impacting negatively on the administration of the programs but the sanctions will, in my estimation, inevitably be passed on, particularly in cities, to consumers of the program, to poor people in the states around the country.

It seems to me that one of the issues that was discussed at length this afternoon is a paradigm of what is wrong with the current quality control system; that is, the timeliness of the data that are generated. Take two examples that were discussed this afternoon.

The first is the 1978 study on the quality control system. If the quality control system is intended and is to have the effect of being an effective managerial tool, it is essential that data be generated in a timely manner. In 1978, HHS commendably undertook a study to find out certain statistical evidence about the quality control system. It is now literally 7 years later and the data are not forthcoming. They may be working their way through the bowels of the Health and Human Services Department, but the 50 States as well as the District of Columbia and certain territories that have to jointly administer this program with the Federal Government, are being deprived of data essential to their effective administration of the program. How can a system that is intended to be a managerial tool be effective if the data are 7 years to a decade late in coming?

Let's take another example; that is, the data on the final determination of quality control error rates, as well as the sanctions determinations. Ms. Ross, in her testimony, referred to the fact that HHS is taking a considerable amount of time in reviewing the sanction determinations. When I became the administrator in New Mexico in 1983, I was presented with a sanction. That sanction was, at the time I got it, referring to events that occurred 18 months prior to my arrival. I was asked to present a waiver. I did. I think it was the waiver she refered to earlier. We presented approximately 650 pounds of material to HHS because we considered this a major concern.

It is now 18 months since our waiver was requested. I am no longer the commissioner in New Mexico, so my successor, or possibly my successor's successor, may ultimately get some information from HHS about a waiver request that I submitted about error rates that occurred during my predecessor's regime.

Mr. MATSUI. Can't you see the beauty of that? You can't hold anyone responsible.

Mr. GOLDBERG. That is one of the problems, precisely. If you are going to have a managerial system, especially one that imposes sanctions, it ought to hold somebody responsible. How can you hold somebody responsible under the system as I described it to you? Of course, I gave you a tendentious description. But as I described it, it is precisely designed not to hold anyone responsible, and that is just not the way the system ought to work.

The sanction I faced in New Mexico amounted to $2.5 million. Mr. Chairman, I know you are aware of New Mexico and its demography. It is a very small State. We don't have a huge caseload.

In fact, we have relatively small expenditures. $2.5 million represents 17 percent of the general fund; that is, the State appropriation to the AFDC program.

If the State of New Mexico were forced to pay that $2.5 million sanction, it would inevitably come out of the benefits to AFDC recipients in the State of New Mexico. These are not the AFDC recipients who in fact cheated the program in 1981; they are the ones on the rolls when the sanction ultimately has to be paid in 1985 or 1986. It will be those people, most of whom are desperately needy recipients, who will end up paying the cost for any maladministration which occurred 4 or 5 years prior to that.

That is not a management tool. It is not even a punitive sanction that achieves, I believe, the result that Congress had in mind when it first contemplated fiscal sanctions.

It seems to me one of the major problems in the present system is that the timeliness of the data is such that it does not yield an effective management tool. And, Mr. Chairman, I am happy to see that your bill addresses this problem, at least in part, by putting some specific time limits into the bill for the Federal officials, which will hopefully produce more timely data.

Another problem with QC as a management system—because, obviously, if we are talking about anything other than a secret or hidden tax, we are talking about a management system with sanctions that are necessary in order to make the management system work—is that it does not address and measure directly the deficiencies in State administration of the program. It measures something else. Now, there may be some connection with what the quality control system measures and the efficiency of State administration is but it doesn't measure the efficiency of State administration directly. I will give you some specific examples of that.

The first thing that struck me about the quality control system was what I ultimately came to call the continuum of unfairness. An eligibility worker has, in New Mexico and around the country, a relatively high caseload. AFDC caseworkers carry a load of 75 to 90 cases on any given day. A Food Stamp caseworker can carry a caseload of as many as 275 cases.

They have a limited period of time in which to make the decisions on eligibility and amount of assistance. Sometimes they have to make those decisions in 2 or 3 hours. It is good that they have a limited amount of time. We don't want needy recipients waiting around for months and months and months while their eligibility is determined.

The Federal standards, as Congress has mandated, require timeliness with respect to eligibility determinations. So, therefore, the eligibility workers have a very small amount of time.

The State quality control reviewers, however, carry a much lighter caseload, five or six cases, and have up to 6 months to review the same determination an eligibility worker made perhaps in hours. Then the Federal quality control reviewers come in, and they have an infinite amount of time to rereview what the State quality control reviewers had 6 months to review and where the eligibility workers had perhaps a couple of hours to review.

So the Federal and State quality control reviewers are not reviewing the decisions and the administration of those decisions by the state eligibility workers; they are looking at something entirely different.

Let me take another example. The eligibility workers in New Mexico—and I believe it is the same around the country—are required to make their eligibility determinations against Federal and State regulations. The State and Federal quality control reviewers have something entirely different. They have a quality control manual, and they make their determinations measured against the quality control manual. The quality control manual, Mr. Chairman, in many respects is substantially different from the state and Federal regulations under which the eligibility determinations are made.

I will give you a specific example, and it is for exemplary purposes only. I am not trying to testify by an anecdote, but I will give you a case that was part of the $2.5 million sanction I faced in 1983. That was a case in which the Federal quality control people had made a determination that there was an error because of deprivation of parental care and support. They made that determination not based against our State regulations. They made that determination based against the Federal quality control manual.

In fact, as a lawyer, a person who has handled literally hundreds of cases on behalf of welfare clients, it was my determination that the eligibility worker's determination was correct, and the Federal quality control manual was erroneous.

I found that repeatedly. There were cases in which the Federal Government was sanctioning us, where a Federal Court has come to the contrary view and said that eligibility is established under Federal law, but the Federal quality control manual and, hence, the Federal quality control determination had been that the payment was erroneous.

That is intolerable. It is not measuring state administration or efficiency of state administration; it is measuring something entirely different.

Finally, let me give you a third way in which this system is not measuring the State's administration. Quality control will call a case an error based on information that the state eligibility worker did not have and reasonably could not have been expected to have. I will give you another example, again from this first set of errors that the Federal Government said we committed in 1981, and for which they want to sanction us fully 17 percent of our program.

The state eligibility worker asked the client, when the client came in, "Do you have a bank account?" And the client said, "No."

All right. Our State reviewer, not satisfied with that, called all the local banks in the area and said, "Does Mrs. so and so have a bank account?" And the banks refused to answer the question, which they are legally entitled to do. They are entitled to refuse to answer the question. So the state determined that the person was eligible.

The Federal quality control came in, called the same bank, and the bank determined to release the information to the Federal quality control reviewer and said, "Yes, Mrs. 'X' does have a bank account here." The Federal quality control reviewer said "This case is now in error," and computed it as part of our error rate and seeks to sanction us for that. In the real world, what we ought to be checking, is this a well-administered program? You could not say that this is bad administration.

The state did exactly what it should have done, and it just didn't get the information and legally could not have gotten the information, and it was just a happenstance that the Federal reviewer got the information. But the case was called an error anyway.

How you can say from these examples that what is happening in quality control is measuring efficiency of State administration. It is not. It is measuring something entirely different. Yet we are building sanctions on the basis of this system.

Governor Blanchard, Representative Rangel, and others have testified as to different aspects of the system, and I won't burden the committee with repetitious testimony. It does seem to me that when you compute into the error rate, quality control system technical errors, such as whether a Social Security number was filled out on that form or whether a WIN registration was correctly filled out on the form, that have nothing to do with whether there was an overpayment or ineligibility, this distorts the system and makes it not only an ineffective management technique. It is also going to ultimately penalize the recipients of the program, not formal administration, for paperwork technicalities.

In the real world it must be recognized that clients participate in some of the errors and that the Federal Government participates in some of the errors as well. Let me give you an example of that.

If the Congress had made the determination that it does not want to penalize the States, but as Representative Rangel suggests, wants to penalize the Federal Government instead, and if Congress passed a statute that said if there is an error rate in the AFDC Program above 3 percent nationally, we are going to penalize—figure out what the penalty is later—the office of OFA, Ms. Ross' outfit, she would come in and quite correctly say, "Well, not all of these errors are our fault." The States participate in the administration of the program, the clients have something to do with the errors, and she would be correct.

Well, the sanctions and the quality control system happen to be addressed to the States administration, but the fact of the matter is that not all of the errors are our fault. Some of the errors are the result of very complicated changes in the AFDC system mandated by the Federal Government.

I am a lawyer. As long ago as 1973 the Federal Court of Appeals in New York City characterized the AFDC Program as the most complicated program devised by Congress, and it is. It is a very complicated program. The Federal Government must bear some of the responsibility for this complexity. Clients do, in fact, advertently and inadvertently cause errors, and they must bear some of the responsibility also.

Yet, the current quality control fiscal sanction program focuses on State administration and seeks, I believe wrongly, to attribute all errors in the program to maladministration on the part of the State. It just isn't so. The system, therefore, is not only distorted because of that, it distorts the utility of the system as a management tool.

Finally, Mr. Chairman, I would like to address a couple specifics with respect to provisions in your bill. On the whole, I think that bill—here I speak for myself, although again I believe there is a general consensus among administrators—addresses many of the problems in the current quality control system.

First, and we support, I support the mandated procedures the bill makes in the statutes, certain procedures with respect to minimum time periods applied to HHS and the States' working out of the sample; it mandates a corrective action plan that is to be approved by the Federal department.

I would make one suggestion with respect to the mandate of the corrective action plan. The bill, as I understand it, now mandates that—that every State must submit a corrective action plan and the corrective action plan must be approved, reviewed and approved by HHS. It seems to me that if a State is performing satisfactorily, there ought to be in there a provision that waives that mandated review and approval by the Federal agency; otherwise what you have is unnecessary paperwork, and I think what this program doesn't need is more unnecessary paperwork.

A provision in the bill that I have some reservations about is the national error rate standard. The bill establishes a uniform national error rate standard of 4 percent. I have substantial reservations about whether a uniform national error rate standard is desirable.

I recognize some of the political dynamics that push in favor of a national error rate tolerance, but I have some reservations about it. If there needs to be a national error rate tolerance, I prefer 4 percent to 3 percent. I would prefer 5 percent to 4 percent. That, of course, is part of the problem. Any national error rate by definition is going to be arbitrary. Four percent is better than 3 percent; perhaps 5 percent would be better than 4 percent, and that is one of the major problems.

I do support the provisions in H.R. 6295, which seek to address some of these concerns by making adjustments in the tolerance level for socioeconomic as well as demographic factors. I am not sure that the bill addresses all the factors that would make a difference, but I commend the bill in seeking to make some adjustment to the tolerance level State by State.

I have grave reservations, however, about computing in the underpayment error rate and cumulating it with the overpayment error rate. The underpayment error rate needs to be addressed, and I speak not only as a welfare administrator but also as an advocate for the programs. It is particularly hurtful to the clients of these programs, where there are errors in underpayment. But the problem is if you are going to build a sanction process on this and you are going to end up further sanctioning the States, those sanctions will again be passed on to the consumers of the program. The States will not absorb these sanctions. So you won't be accomplishing much to the benefit of the consumers of the program. Instead you will be spreading and distributing the cost of these underpayment errors.

My suggestion, and I do have a suggestion because as a lawyer, I know it is hard to beat something with nothing, so I have something that I think is a little better than nothing. I suggest another provision of the bill, which I applaud, which mandates HHS to conduct two studies. One of those studies is on client caused errors, and I think that study ought to be made. The other study is asking

HHS to study other performance measurements than just overpayment error rates.

It seems to me that before we take the drastic step of including underpayments in a sanction process, that you should incorporate as part of the second study, looking at how to handle underpayment errors and how to put some discipline into the system and put some pressure on the States to address underpayment errors as well as overpayment errors. I suggest that it is premature to put the underpayment errors into the process without a study.

Mr. Chairman, on the whole, I believe that H.R. 6295 addresses many of the concerns that we have raised with the current quality control system, and I commend the subcommittee, and we are grateful to this subcommittee, as well as to Representative Matsui, for the efforts over the past year in addressing the error rate and the fiscal sanction problem.

I believe that this bill is a good first step. I don't think it is final yet. I believe it is a good first step in addressing the problems. I am hopeful that we and the State administrations can join hands with the Federal Government and with the Congress in getting a better quality control system. The States are satisfied that there needs to be a good quality control system. We are satisfied that the current system is not a good one.

I will answer any questions. Thank you.

[The prepared statement follows:]

STATEMENT OF JOSEPH GOLDBERG, SECRETARY, NEW MEXICO HEALTH AND ENVIRONMENT DEPARTMENT, AND CHAIR, NATIONAL COUNCIL OF STATE PUBLIC WELFARE ADMINISTRATORS' AD HOC COMMITTEE ON QUALITY CONTROL OF THE AMERICAN PUBLIC WELFARE ASSOCIATION

At the outset, I too, want to commend the Subcommittee for giving us this opportunity to testify on the troubles with the AFDC quality control system. For more than a year, I have been working closely with a number of state human service administrators to develop an acceptable solution to the problems created for us by clearly unfair error rate sanctions. Our first answer was to ask Congress to temporarily suspend penalties while the states and the federal government searched for specific ways to remedy the defects in the current system. We were very pleased that, as a result of the strong leadership provided by this Subcommittee, a proposal entailing this approach made it into the conference with the Senate on the Deficit Reduction Act. Even though the proposal was dropped by the conferees at the last minute, its inclusion in the conference deliberations significantly helped to educate many members of Congress about the inadequacies of AFDC quality control as it now operates. Consequently, it is now possible—indeed necessary—to move beyond talk of suspending penalties, to prudent consideration of the options available for correcting the problems with the quality control system. In this regard, Mr. Matsui's bill comes at an opportune time, and we are grateful for the chance to offer some preliminary comments on its provisions today. In the months that lie ahead, the state human service administrators will be giving this legislation careful scrutiny in preparation for further congressional action on the quality control issue next year, and we will look forward to working with the members of this Subcommittee toward that end.

So far in our testimony, we have discussed the problems with the AFDC quality control system in only the most general sense. I will now try to be more specific about these problems in order to provide a framework for stating our tentative views on the proposed solutions offered by H.R. 6295. For the sake of simplicity, it is possible to think of the defects in the quality control system as falling into four categories: (1) the difference between quality control and eligibility determination; (2) errors that make a difference; (3) statistical dilemmas; and (4) federal responsibilities. Let me take up each of these in turn.

THE DIFFERENCE BETWEEN QUALITY CONTROL AND ELIGIBILITY DETERMINATION

Quality control entails a thorough-going review of all the factors that impinge on the eligibility and benefit level of every case in a sample drawn from the state's AFDC caseload. It is not merely a check on the accuracy of the work done by regular staff, but an intensive examination designed to unearth any uncorrected error that exists in the case. Typically, a reviewer spends many hours going over the case record, interviewing the recipient, and making collateral contacts to verify information.

By contrast, the regular eligibility worker operates under far different circumstances. He must deal with a considerably larger volume of cases, perform his work within a much shorter time-frame, respond to the widely varying needs of clients, and otherwise accommodate any number of unscheduled demands on his time. That this worker will make mistakes goes without saying.

The contrast between day-to-day eligibility work and quality control would not be problematic if the results of the latter were only used—as originally intended when AFDC quality control was first invented—to help managers correct and improve the former. It makes sense to conduct intensive and precise reviews of a sample of the ongoing work in a complex organization in order to determine the nature, depth and extent of any performance problems that management may need to resolve. However, quality control in AFDC does not stop at this point. Instead, it takes the results of the reviews—namely, the error rate—and makes that the basis for withholding federal funds from the state. Put another way, the state is penalized for failing in its regular eligibility determination process to perform at the level achieved by quality control. And ironically, the better the state is at quality control reviewing (i.e., the more it wants to manage well), the more errors it will detect and the more money it will lose if the resulting error rate exceeds the federal tolerance. Now, in answer to this paradox, the state could remake its eligibility determination process in the far more expensive image of quality control. That, however, in most cases is likely to cost more than either the state or the federal government is willing to pay, both in terms of administrative dollars as well as the treatment of applicants and recipients. Although we would not rule out the need to improve the ongoing eligibility determination process under some circumstances, the way out of this dilemma would seem to lie mainly on the other side, in the area of quality control.

ERRORS THAT MAKE A DIFFERENCE

The errors that occur in AFDC are not alike. Relevant differences do exist among the types of errors we encounter. Yet, the quality control system does not recognize these differences when calculating error rates and fiscal sanctions. State administrators believe there are three types of error that ought to be reviewed differently from all other types for sanctioning purposes. First, there are technical or paperwork errors in which a procedural lapse has occurred that has nothing directly to do with the recipient's eligibility. Failure to provide evidence in the case record of a child's social security number or of a recipient's registration for the Work Incentive (WIN) program are two fairly common examples. Once corrected, such an error does not affect the payment status of the case; yet, if picked up by the quality control review, it counts just as much as if the case were truly ineligible. The administration argues that technical errors should be counted toward the error rate because they entail procedures or items of information which can be used in determining whether a recipient continues to qualify or is receiving too much assistance. While we agree with the need to monitor and correct these errors, there is no logic in making paperwork omissions one of the main grounds on which millions of dollars in penalties are assessed against the states.

A second type of error which, in our judgment, deserves to be treated differently is the mispayment caused by the client. A considerable portion of the error rate in AFDC represents situations in which clients have failed, whether or not intentionally, to provide the welfare office with accurate or complete information needed to determine continuing eligibility and payments. Although some things can be done to prevent and detect client-caused mistakes, there are limits on what we can and should do to control recipient behavior. A state should be free from penalties for errors that it cannot be expected to consistently control through cost effective management.

Thirdly, errors occur owing to factors that, like client behavior, are beyond state control or that increase error-proneness because the state pursues another equally worthy program objective besides payment accuracy. In the first category are socioeconomic and geographic factors that help to create an environment where errors are more likely. For example, welfare agencies in large urban areas operate in a turbulence that fosters more mistakes and increases the difficulty of correcting them. Or take a state with a large Native American population, such as my own, where language barriers and other cultural differences may lead to error because clients do not understand the rules. Also in the first category are the adverse effects on error control created by complex and changing federal policies, an issue Pat Schramm cited in her statement. The second category consists of policy options and initiatives states take to enhance the effectiveness of their AFDC programs, with the consequence that complexity—and hence susceptability to error—increase. Adopting an unemployed parent program to provide income protection for intact families, or establishing a program to help recipients obtain and keep jobs that can move them off welfare, are prime examples of this phenomenon. At present, none of the factors encompassed by these two categories is given any weight when computing a state's error rate and fiscal sanctions.

STATISTICAL DILEMMAS

How much faith can we have in the error rates generated by the AFDC quality control system? From a management standpoint, the answer is probably "enough". The error rate data generally have sufficient precision to indicate where performance problems needing correction are most likely to lie. However, the same probably cannot be said when the purpose of the data shifts from management to penalization, from being helpful to being punitive. Whereas state managers use error rate information as an aid to decision-making about corrective action, the federal keepers of the sanction process allow that information to make the penalty decisions for them. Such exclusive reliance on error rates to determine whether or not to sanction necessitates that extreme care be taken in their calculation, in order to guard against the possibility of assessing an undeserved penalty. Unfortunately, the quality control system has not been set up to accommodate this need, with the consequence that false sanctions have a high probability of occurring. Since it uses a sample of cases rather than the whole caseload—a practical necessity dictated by cost considerations, the system can only establish the probable range within which a state's error rate falls; it cannot determine the true rate of error. A reasonable penalty policy, recognizing this limitation of the data, would set the official error rate for the state at the lower boundary of the range, to eliminate the risk of overestimating it. But this is not what HHS does now. Instead, under current policy the error rate is pegged at the midpoint of the range, which entails a 50 percent chance of exaggerating the actual extent of error. We would argue that it is flatly unfair to base the withdrawal of federal funds on such statistical inaccuracy. I urge you to look at a report, recently issued by the National Academy of Sciences, entitled "Family Assistance and Poverty: An Assessment of Statistical Needs," which echoes our complaint on this matter.

FEDERAL RESPONSIBILITIES

Pat Schramm has already mentioned our interest in forming a working partnership with the Department of Health and Human Services in order to strengthen AFDC program management. Within the quality control system per se, there is a need for a positive approach in which the responsibility for error reduction is common to both levels of government. A key ingredient of shared responsibility involves the federal government as well as the states performing their respective functions within quality control in a timerly manner, so that neither impedes the work of the other. For the states, this principally means conducting timely quality control reviews and carrying out corrective actions expeditiously. For HHS, it largely means making final error rate determinations as close to the end of a quality control review period as possible.

Not long ago, HHS established time standards for states' completion of their quality control reviews, and just last Friday published a revision of these standards. While the states have quarrelled with the department over what connotes a reasonable period of time for carrying out our review responsibilities, by and large we have acknowledged the legitimacy of time requirements to govern our part of the system. This is not so when it comes to HHS and its role in the quality control process. The federal agency has steadfastly refused to be ruled by any timeframes of which we are aware, and it shows in the inordinately long delays seen in the issuance of final error rates following each review period. For example, fiscal 1985 has just begun and the rates for fiscal 1982 have not yet been released. Now, I guarantee you that states have already taken corrective measures to deal with the performance problems they had three years ago. Yet, that very performance will be the basis for the imposition of sanctions probably sometime before the end of this year.

Although we dislike penalties, if they are to exist and serve as a goad to better performance, then they ought to correspond more closely in time with the period from which they are derived. A reasonable time requirement on HHS would address this problem and incease the overall efficiency of the quality contol system.

COMMENTS ON H.R. 6295

I would now like to turn to our comments on H.R. 6295. Of the problems I have just finished describing, nearly all of them are addressed in some way by Mr. Matsui's bill. And for the most part, the solutions being suggested move in a direction which state human service administrators favor. Let me address myself to the provisions of the legislation as they appear in the written summary dated September 21.

MINIMUM QUALITY CONTROL POLICIES AND PROCEDURES

There was a time several years ago, as I understand it, when states opposed putting quality control requirements in law, on the assumption that the partnership between the Department of Health, Education and Welfare (HEW) and the states was still strong enough to work out a mutually agreeable approach. But that was before fiscal sanctions became a seemingly permanent part of the landscape and a potential means of trimming the federal deficit. Today, sanctions pose a greater, real threat to the states and the recipients of the program. Consequently, the requirements of the process for determining them cannot be left to administrative discretion. The significance of the interests at stake, in our judgment, clearly warrants congressional determination in law of the basic policies and procedures of AFDC quality control. And this is precisely what H.R. 6295 aims to do.

The bill spells out the minimum requirements that would apply to the states as well as the federal government in measuring error and taking corrective action. The states would have to produce the results of a "statistically reliable sample" every review period according to time standards set in regulation. HHS would be required to notify states of the official error rates, adjusted according to other provisions in the bill, within six months after a state has completed its sample. Following this, all states would submit comprehensive corrective action plans to HHS for review and approval.

On the whole, state administrators will probably favor this approach to incorporating basic procedural requirements in law. I would, however, like to suggest one modification and one caution. Although a corrective action requirement is a necessary feature of a rational quality control system, we question the desirability of imposing it on all states indefinitely regardless of their level of performance. It would probably make more sense to waive the requirement, at least in terms of HHS reviewing and approving the plan, for states that consistently perform at or below the federal error rate tolerance. Doing so would enable HHS to concentrate its attention on those states needing the most help. As for the caution, state administrators at this point are not sanquine about the rulemaking authority assigned to HHS by this section of the bill, even though we recognize the necessity of leaving a good measure of discretion to the department. The AFDC quality control revisions announced by HHS last Friday show a marked disregard for procedural fairness and for the customary, and we believe lawful, limits of federal administrative discretion. If this is an example of how the regulatory powers assigned by H.R. 6295 would be exercised, there is good reason for both Congress and the states to worry about interpretation of the legislation by the federal agency.

NATIONAL ERROR RATE STANDARD

State human service officials oppose an absolute national error rate standard or tolerance. Setting the tolerance at a fixed percentage is clearly arbitrary, having no basis in an empirically supported or logically reasoned understanding of the level of payment accuracy that should be expected of the states. Nonetheless, if there has to be an absolute standard, we clearly prefer the 4 percent proposed in the bill to the 3 percent applicable under current law. We do take isue, however, with including underpayments, as well as overpayments within the tolerance. At present, fiscal sanctions are calculated as the amount by which a state's overpayment (including payments to ineligibles and overpayments to eligibles) rate exceeds the tolerance—in other words, we are expected to pay the federal government back for the federal money misspent in excess of the acceptable level. If underpayments are added to the calculation, we are put in the odd position of paying the federal government for money we do not spend but should have. In our view, underpayments are just as important a problem as overpayments, but they do not belong in the sanction formula. It would be more appropriate to address them explicitly in the corrective action process, through which HHS and the states can seek to obtain the same level of understanding—of why underpayments occur and how they can be systematically corrected—that we have of overpayments.

ADJUSTED STATE ERROR RATE

H.R. 6295 would adjust the state error rate in two ways I alluded to earlier in my terstimony as desirable and necessary steps to establishing a fair quality control system for AFDC. It would compute the error rate as the lower boundary of the range within which the actual rate of error is expected to lie, and it would then subtract technical errors from this level before liability for a penalty is determined. Exclusion of technical errors from the sanctioning process would put the emphasis where it belongs, on the end results instead of the procedures that may lead to them. And, as we have already stated, employment of the lower boundary would assure that no state receives an undeserved penalty. State administrators strongly support both changes.

ADJUSTED TOLERANCE LEVEL

One of the more significant sections of the bill, from the state's standpoint, is that part requiring adjustments in the tolerance level to accommodate factors beyond a state's control which drive up the error rate. Three factors are covered: 1) operation of the AFDC-Unemployed Parents program; 2) a higher than average percentage of cases with earnings; and 3) a higher than average population density. All three have been found, in a yet to be released HHS study begun in 1978, to be associated with higher payment error rates, regardless of administrative effort.

As I indicated before, we firmly believe that external factors, such as these, which reduce our ability to control error, should be taken into account in the sanction determination. I cannot at this time give our unequivocal support to the adjustments provided in H.R. 6295, since my colleagues and I have not yet thoroughly discussed the way in which we think uncontrollable variables should be reflected in the penalty process. However, based on the HHS study and what I know about the operation of the AFDC program, I believe it is safe to say that these constitute the kind of adjustments state administrators would find desirable and justified.

IMPOSITION OF SANCTIONS

H.R. 6295 would incorporate in law the method for computing the sanction amount and the procedures for waiving sanctions when the state, despite making a good faith effort, fails to achieve the federal tolerance or better. In the main, these provisions of the bill are derived from the way the system operated before HHS published its revised AFDC quality control rules last Friday. State human service administrators find most of the new rules unacceptable for the general reasons I have already stated, and would urge you to retain this section of the bill largely as it is. To make the penalty calculation and waiver processes more complete, you may wish to include in the legislation the following additions and clarifications:

In addition to reducing the sanction by the amount of the federal share of overpayments recouped by the state, it would also be reasonable (if this is not yet being done), to deduct from the federal expenditure against which the sanction is calculated, the federal share of child support payments collected for AFDC recipients. States should not have to pay penalties on expenditures the federal government has already recouped.

A good faith waiver related to state agency commitment should be based on whether the state has appropriately carried out its approved corrective action plan. The state should be held accountable for following through with its plan, not for anticipating what the federal officials reviewing its waiver request think it ought to have done to reduce errors.

In seeking a waiver, the state should be permitted to challenge the manner in which HHS has determined the state's error rate.

In assessing a waiver request, HHS should be required to take into account the state's past performance. It is questionable whether a state with a firm record of acceptable performance should be penalized if, in a given review period, it experiences an aberrant error rate exceeding the tolerance. The aberration may be due to no more than a statistical fluke. A careful analysis of both historical performance, as well as the state's current corrective action efforts, should reveal whether the sanction is really justified.

A state should be permitted first to seek a waiver on good faith grounds before deciding whether to have the sanction waived automatically by submitting a plan for error reduction based on the expenditure of additional state funds. Put another way, a state should not have to spend more money on error reduction until its existing corrective action efforts (or other grounds for a good faith waiver) have been judged for adequacy by HHS. To do as the bill instructs now could force the state to expend funds unnecessarily.

OTHER PROVISIONS OF THE BILL

Mr. Matsui's legislation contains three other sections. One establishes financial rewards for states with error rates below the standard tolerance of 4 percent. The state administrators will be taking a closer look at this reward policy to determine whether it provides a realistic incentive for the large majority of states now performing above the 4 percent level. A second section calls for two studies to be undertaken by HHS: one on client-caused errors and the other involving an examination of performance measures broader than payment accuracy. We think both studies are very important and would benefit in each case from a statutory requirement that the department consult closely with the states on the design and implementation of the study. Also, we would urge that the study of broader performance measures give explicit attention to the issue of cost-effectiveness in error reduction. Finally, the bill would prevent HHS from carrying out its plan to terminate federal fiscal liability for state supplementation errors made by the Social Security Administration in administering the SSI program. State administrators heartily applaud this move, which is intended to keep the department from instituting a double standard: a generous one for itself in the case of SSI and a draconian one for the states in the case of AFDC.

That concludes my statement, Mr. Chairman.

Mr. MATSUI. I thank both Mr. Goldberg and Ms. Schramm for your fine testimony. I have a few questions. I am going to have to leave in a few moments, but I would like to ask a few questions.

First I have one comment regarding your testimony, Mr. Goldberg. I think your 36-month period, in terms of when you first came on board and when you left, and the fact that no final resolution of the $2.5 million for New Mexico has been resolved at this time really bears out the fact that there is really a deficiency in terms of good management objectives in the current program.

If anybody read any time management books or Harvard Business School periodicals, they would have to come to the conclusion that the current system makes very little sense in terms of the issue of sanctions and accountability, which is really a key to the whole issue.

I think both of you raised it. What I would like from both of you, in the next few months, before the new session begins and prior to resubmittal of this bill, are additional thoughts that you and your association may have in terms of improvement of the legislation. I think the comments, Mr. Goldberg, that you made are well taken, and we certainly will look at them and incorporate many of those concepts in the legislation, itself.

In terms of the factors beyond the control of the State administration——

Chairman FORD. Along with that, there might be some questions that we would want to submit in writing and additional questions from the Chair. We would appreciate it if you would respond to some of those questions.

Mr. MATSUI. In addition, you mentioned that under article IV of our bill, where we discuss those variables that would increase the tolerance level, if you would add a few more, I would like specifically those if we may have those, and perhaps the 1978 study will come out later, and we will have even more information and can refine our numbers a little bit at the same time.

One question that I have, perhaps Ms. Schramm, you can answer. In Ms. Ross' testimony, she indicated that in 1973, before there was pressure by financial sanctions placed on the States, the States were making little effort in terms of reducing their error rate. I would like your response to that.

Ms. SCHRAMM. I wasn't around in 1973 and very few of us were. I think it is probably fair to say that 10, 15 years ago these programs were all less well administered than they are today. I think it is also fair to say that—I mean, I don't question that in 1973 maybe people weren't sending in corrective action plans. I know that there is, to a certain degree, a different kind of administrator in charge of these programs today than was the case 10, 15 years ago. Among the administrators that are part of our council, there are more MBA's and lawyers than there are social workers. I don't know whether that is good or not, but it is a different kind of management.

You have heard testimony today that the error rate has been reduced in half in the last 10 years or less, and that is as a result of a major effort on the part of the States. My Governor and legislature expect me to get it down, because they don't want the dollars spent in error.

Mr. MATSUI. From a management perspective and from a perspective of pride, the Governor wants the error rate down because he has professional pride in his administration, and he comes up for reelection, are those incentives strong enough for you to try to work to improve the quality control of your administration?

Ms. SCHRAMM. Those incentives are plenty strong for me, but there is another incentive, and that is I think there is only going to be so much money in any jurisdiction spent on human service programs, and I am talking not just about public assistance, AFDC, Medicaid, Food Stamps. I am talking about health, programs for the mentally retarded, for the mentally ill and so on.

The legislature has so much money and is only going to appropriate so much to my department. It is not going to take an error sanction out of the highway budget or the corrections budget; it is not going to take it out of the finance department budget. It is going to come out of human services, and I think that is strong evidence of the motivation that most of us have in trying to get the error rate down.

Mr. MATSUI. You mentioned in your comments that there is very little assistance once the error rate numbers are given to you in terms of how you can improve your system by the Federal Government. I am just characterizing your testimony, but is that correct?

Ms. SCHRAMM. Well, what you said is correct. That is not what I said.

Mr. MATSUI. I am sorry.

Ms. SCHRAMM. The problem with—and Delaware is a small State, so this may be more typical of, let's say, 50 percent of the States as opposed to the other 50 percent, but the quality control sample is small enough that when you try to break it down as to the causes of the errors and especially if you try to break it down into subareas within the State, it becomes impossible to use that quality control sample to arrive at any conclusions as to what you can do to improve the program.

When you add to that the fact that the errors have gone down quite a bit, so you don't have that many error cases and add the fact that the Federal re-reviews further exaggerate the error, the quality control sample becomes pretty useless in terms of a management tool. We have had to set up sampling procedures above and beyond the quality control program, and this is what we really use to improve the management of the program.

Mr. MATSUI. The last question to either one of you. For example, the $2.5 million that New Mexico may or may not have to pay, depending on whether you get a waiver—assuming you have to pay it, what action would you recommend to deal with it—what area would you cut back or would you increase taxes?

Mr. GOLDBERG. There is a draconian—there is no good choice there. First of all, I think that Ms. Ross' suggestion of my going to the legislature and saying "Trust me" won't work. In fact, I think we have gone to HHS, and we have said to them, "Trust us," and they are here testifying to you that it doesn't work with them. So I don't know why it would work with the legislature.

I think inevitably, because administratively it is the only thing that can be done, what will happen will be a cutback in benefits.

Mr. MATSUI. So you are indicating cutbacks in benefits and/or a reduction in personnel to deal with the whole issue of efficiency?

Mr. GOLDBERG. The problem with reductions in personnel, and we have made reductions, just as Governor Blanchard testified. We have made reductions in personnel in the welfare department in New Mexico. The problem with reductions in personnel is administratively they are extraordinarily cumbersome to accomplish. It is very hard to reduce personnel. That is probably good, but it is hard to do.

It is, in fact, much easier to reduce the benefits to welfare recipients. Also, when you reduce personnel and then if there is an increase in your caseload or your budget, it is hard to get the new personnel back on line. So I think we could never reduce enough personnel to save $2.5 million.

So, inevitably there are going to be reductions in benefits, and that is exactly what ought not to occur. But just as Mrs. Schramm stated, the legislature is not going to increase taxes or take it out of other budgets. They are going to take it out of the human resources budget, and that is going to reduce levels of benefits either in the AFDC program or in one of the other programs.

Mr. MATSUI. Forty-one Governors support some change in the current quality control program. I assume that your Governors and your Governors' offices support your testimony at this time?

Mr. GOLDBERG. Yes. That is bipartisan also, I might add.

Mr. MATSUI. Thank you for your testimony and for coming here from your respective States.

Chairman FORD. The committee will call Mr. Robert Greenstein, the Director of the Center on Budget and Policy Priorities, as our next witness. I would like to welcome you to the committee. I am sorry that we are running a little late today, but thank you for being so patient. The Chair will recognize you at this time.

STATEMENT OF ROBERT GREENSTEIN, DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES

Mr. GREENSTEIN. Thank you, Mr. Chairman.

I am Robert Greenstein, director of the Center on Budget and Policy Priorities, a nonprofit research and analysis organization. In that organization, we have done a considerable amount of work analyzing impacts of sanctions, but I have had experience with them as the administrator of the Food Nutrition Service in the Department of Agriculture in 1979 and 1980.

Before getting to the specific issues regarding impacts of sanctions on recipients and some things that might be done to ease that, I would like to make a few preliminary observations. I do believe that sanctions in these programs serve a useful purpose and given the Federal funding involved, they are needed.

But from that basic principle, I think we have gone pretty far astray in the last several years in how to structure sanction systems that achieve the kind of goals of reducing error rates without unfairly penalizing recipients. I think the basic principle is that a sanction needs to be large enough to draw blood, to cause political embarrassment and discomfort, often intense, for the agencies and officials running the programs in order to get them to secure funds from the State legislature to make needed improvements in the programs.

But it is false to assume that increasing a sanction on a State from $2 to $5 to $10 million somehow quintuples the effort that a State can make in reducing errors. If you are a State welfare commissioner, headlines saying that you are being sanctioned for $1 million is as politically damaging as a sanction saying it is for $4 million. The exact amount isn't the issue, if the sanction is large enough to do the trick.

Once the sanction gets larger, you just have a cost shift from the Federal Government to the States that ends up affecting recipients. Several pieces of evidence and experiences bear this out. In 1983, the administration proposed changing the food stamp error rate sanction system to make the sanctions much larger. At the request, I believe, of Congressman Mineta, the CBO undertook an analysis of what the impact of this would be. The CBO concluded that the bigger sanctions would have virtually no impact on reducing the error rates down because the existing sanction system already was doing as much as could be done to get error rates down. The additional sanctions would be almost entirely cost shifts.

When you get to the point that bigger sanctions are just cost shifts, then you have gone too far, and it contravenes the basic purpose of the program to make the sanctions that large.

The second basic observation comes from my experience in agriculture. In 1979, we had five major States with large food stamps caseloads that had high error rates. What we did in those five States was to call on the commissioner, sit him down with the inspector general and the Assistant Secretary of Agriculture, let them know that they would be subject to very large sanctions, sometimes in the nature of $5 or $10 million, unless there were not only corrective actions but measurable progress.

We generally set up frameworks and standards where certain things had to be done and certain progress achieved by milestones or sanctions would be levied. In the State of Pennsylvania, we withheld $0.5 million a month, but the money was earned back as certain accomplishments were made. Our goal was to get error rates down, not to collect millions of dollars for deposit in the Federal Treasury.

The results were successful. The error rates came down significantly in every State, and left me with a lasting impression that part of what we have in the current sanction system is really a failure of management and failure of guts by the relevant Federal officials to isolate those places where there are State problems and to force them to make the tough decisions and to work out something that gets the error rates down.

When you have sanctions that hit everybody for all the errors over 3 or 4 percent, Federal officials can hide behind them, saying "Don't blame me, there is nothing I can do about it." My own sense is that more reasonable sanction levels across the board combined with tough individual management on a State-by-State basis could often achieve better results with less program disruption.

The disruption is particularly important because I very much share the view of the preceding witnesses, that the people who will lose the most in the end are not the State treasuries or State officials, but the recipients. As said by the last few witnesses, the money is not going to come from other departments.

My experience in the Federal Government and dealing with OMB is that when the programs that you run cost more than they should because of a perceived mismanagement on your part, you are generally forced by the relevant budget official, whether it is OMB or the equivalent at the State level, to take a large share of that cost of your own budget. You don't get what the State fiscal officer would view as a free ride.

When a large sanction is levied on a State by the Federal Government for AFDC or other progams, regardless of whether the sanction stems from an unrealistic tolerance level, the human resource department in almost every State will be made to eat some or all of that sanction. There is only one place you can get money of that size from, and that generally is from benefit levels, specifically in AFDC.

People respond that States aren't going to publicly lower AFDC benefits to deal with sanctions. They don't really have to in normal terms. Inflation eats into AFDC benefits. AFDC benefits today are 36 percent lower in real terms than they were in 1970. No other part of American society has suffered so badly.

When a State determines how much of a cost-of-living increase to give, since there is not one State in the country where an inflation increase is automatic, they look at how much money is available in their budget. Many States are now giving 3 or 4 percent increases. I submit to you however, that what we will get when the sanctions come fully into effect and when inflation is 6 percent is that States will give zero, 1 or 2 percent increases in the cost of living.

People will come back from HHS and say if the State gave a 1-percent increase, it wasn't a sanction, it was still an increase. If inflation is 6 percent, there is a 5 percent real reduction in purchasing power for the families who are already the poorest people in the country. Not only are AFDC benefits 36 percent lower in real terms than in 1970, but as a result of the 1981 budget cuts, there are now 40 States where a mother and three children with earnings of about $6,100 a year lose all AFDC benefits after the fourth month on the job, even though that is only 60 percent of the poverty line.

We have over half the States and a growing number who have no UP program at all. The final impact on recipients, I would suggest, is that unrealistic sanction levels lead to increases in what we call errors of stringency. Those are where a State or an office gets so concerned about dealing with errors beyond what it can reasonably figure out what to do that it does things like asking recipients to come in five different times in the same application cycle. Every document leads to a request for three more documents of the sort that if it were a program dealing with middle-income people or the IRS, the middle class would be up in arms.

These kinds of errors of stringency generally do not show up in underpayment rates. They leave the households dropping out, not dealing with the hassle and never making it through the process in the first place. I submit that there is some good work done on that in Massachusetts at MIT by Michael Lepsky and Evelyn Broadkin that might be of interest for the subcommittee to look at.

On the question of tolerance levels, I also get increasingly disturbed when I hear various programs compared and such things said as the AFDC tolerance level should be at 3 percent because Medicaid is at 3 percent, and while we are at it, we should lower food stamps to 3 percent because AFDC and Medicaid are at 3 percent.

Programs are not equivalent either in their caseloads or in their measurement of error. In the Medicaid Program, the only errors that are counted are errors in eligibility, where an ineligible household ends up being put on Medicaid. Overpayments on behalf of eligible households go to providers, not recipients; therefore, they are not counted in the Medicaid error rate. Overpayments to eligible households in AFDC and in food stamps go to recipients. They are included in the error rate.

To have the same tolerance level for Medicaid on ineligibility as in AFDC on errors, both of ineligibility and overpayments to eligible households, is fundamentally inequitable and makes no sense at all.

The SSI Program is also quite different. In SSI, the caseloads are elderly and disabled, and the overwhelming bulk have no outside earned income and normally no prospects of such income. Every study shows that a stable caseload of that sort, without fluctuations or changes in household composition or earnings, means lower error rates. Yet even in SSI, the error rate is above 3 percent.

Finally, and I think very important for examining the Matsui bill, a well-designed bill, is that various data such as, it is my understanding, the AFDC study data assembled early on that has been around for so long and is still not released, shows in fairly dramatic form that earners have substantially higher error rates than families without earnings. Furthermore families where both parents are present have significantly higher error rates than single-parent families because there are possibilities of more earnings and their fathers may be in and out of the work force.

Therefore, it only makes sense to expect and require lower error rates, say, in SSI than in AFDC, lower in AFDC than in AFDC–UP, and probably lower there than in food stamps. By having an error rate that is the same as Medicaid, lower than the current SSI error rate where generally there are not families with potential earnings, and no differences in States with and without UP, the sanctions become a major Federal disincentive to provide an income for impoverished two-parent families with children in this country. That should be contrary to the most basic principles in any reasonable public welfare system.

I have always been amazed by the failure of HHS to adopt a reasonable position with regard to technical errors. For some time, there has been a basic principle in the Food Stamp Program that if an error were corrected and this would cause less money to go out, that is an error, but if you correct it and did it right and it made no difference, you don't count that in the error rate.

Two examples: In food stamps, suppose that a work registration card is missing from the file, had it been done properly, you would have the work card in the file and the family would still get the food stamps, that isn't counted as part of the error rate. In AFDC, if a WIN registration is missing from the file, it is my understanding that the entire benefit going to that person is counted as ineligible, not a portion of it, but all of it. The same is true for Social Security enumeration.

In food stamps, if the card is missing, it is not an error. In AFDC, it is. Now, the second example: in food stamps if the household refused to get the Social Security number, refused to comply with work registration, or refused to fill out a work registration card and the household wasn't terminated, that is an error and that is how it should be; but if simply you can't find the document in the file and it is a clerical thing of getting it in, it shouldn't be counted as part of the error rate. It isn't in food stamps, it shouldn't be in AFDC.

Another point: I have seen firsthand what it does to State programs when there are a series of Federal changes in a short period of time. The principle of a moratorium on counting errors and the error rates that are associated with Federally prescribed policy changes is essential to a fair system. It is not just that the regulations change. The manuals change, people have to be trained, and some of us could hold a very interesting hearing pointing out how many errors the Feds made in the past 3 years in writing regulations that fundamentally violated the new law in which they then had to change their own regulations to correct themselves 10 days before they went into effect, sometimes after they went into effect.

When the Feds can't even write their own regulations right, how can they not give any moratorium to the States for these errors? We are finding a situation right now where with the new child support provision, for example, HHS has said that errors associated with the child support provisions of DEFRA will not be counted in the AFDC error rate for the next year. USDA has absolutely refused to provide a similar moratorium and in another unreasonable position has said such errors will be counted in the food stamp error rate for the next year.

These sorts of things really need to be addressed in responsible legislation, since the officials responsible for handling these seem to be taking unreasonable bureaucratic positions and not addressing them properly.

The final point is what is the fundamental purpose of the sanctions to begin with? I think we need to ask ourselves whether the purpose is to make the programs more efficient and to reduce errors or whether there is another purpose: To get money back into the Treasury and cut costs even at the expense of recipients.

Those who advocate very stiff sanctions claim that the latter is not one of the purposes. If it is not, then I suggest to you that maybe the following ought to be considered. We are heading toward a point where, regardless of how we approach this, very large sanctions are going to be levied. Those are going to result in somewhat lower AFDC benefit levels.

If the goal is not to harm the truly needy and to increase efficiency and provide tougher penalties for higher error rates, then I suggest that the money that is collected through these sanctions be used in another form: In connection with a provision in the Rangel welfare reform bill proposed last year that increases Federal matching for those States that increase the basic AFDC payment level in the future.

That way we could take money that is collected from sanctions and, instead of in the end hurting recipients, utilize it to try to provide incentives to States to increase basic benefit levels.

In the absence of a provision like that, what we really have in the current sanction system is simply yet another mechanism that will take people who are poor and push them even deeper into poverty.

Chairman FORD. Thank you.

There are two or three questions that the Chair wanted to raise. I am going to pass them to staff and let them pass them to you, and you can submit the answers for the record, because there is a recorded vote on the House floor.

I would appreciate it if you would submit for the record a response to these questions that the staff will pass to you.

Mr. GREENSTEIN. I will be happy to.

[The following was subsequently received for the record:]

RESPONSES OF MR. GREENSTEIN TO QUESTIONS POSED BY CHAIRMAN FORD

Question 1. Can you suggest any policies that would offset the negative impact of these error rate penalties on AFDC beneficiaries?

Answer. Yes. I would suggest adoption of the provision in the Ford-Rangel antipoverty bill that provides enhanced federal matching for future AFDC benefit increases. This provision could be designed in such a way that error rate penalty collections were effectively plowed back into benefits.

Question 2. To what extent do inconsistent AFDC, food stamp and Medicaid policies contribute to a high error rate?

Answer. Inconsistency is clearly a cause of error, although there are other important causes as well. I'm not aware of data that would quantify how much of the error rate is due to inconsistencies among programs.

Question 3. Would you agree with Congressman Rangel that, if our objective is reduction of fraud, waste and abuse, we should look to other programs besides AFDC for substantial savings?

Answer. I very much agree with Congressman Rangel on this point. Fraud, waste and abuse in defense contracting and in the federal income tax system far outweigh the losses in public assistance programs—but have been attacked less vigorously.

Chairman FORD. That will conclude the business of the Subcommittee on Public Assistance, AFDC quality control hearings today, and the subcommittee stands adjourned.

[Whereupon, at 5:05 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

STATE OF ALASKA,
Juneau, October 12, 1984.

Hon. HAROLD FORD,
Chairman, Subcommittee on Public Assistance and Unemployment Compensation, Committee on Ways and Means, House of Representatives, Longworth House Office Building, Washington, DC.

DEAR REPRESENTATIVE FORD: I am writing to express Alaska's support for H.R. 6295, which was introduced by Representative Matsui on September 24, 1984. The bill would make multiple improvements in the present Aid to Families with Dependent Children (AFDC) quality control standards and procedures, and would correct many of the features that Alaska finds objectionable in the current and proposed AFDC quality control regulations.

We fully support requiring a state's error rate to be calculated at the lower bound of the standard interval, disregarding technical errors in the error rate calculations, and reducing fiscal sanctions by the amount of overpayment recoupments.

We do not agree with Section 403(i)(6)(B)(iii) which includes "underpayments to eligible families receiving assistance" in the definition of "erroneous payments." It is Alaska's experience that the majority of underpayments are caused by a recipient household's failure to report changes in its circumstances, even when it is to the household's advantage to do so. We do not believe states should be held financially liable for benefits that were not issued, and thus do not represent program loss, waste, or abuse.

We also believe that special treatment should be given to calculations of error rates for households living in isolated, rural regions that are not accessible by regularly scheduled commercial air service, automobile, train, or other surface transportations.

It is proposed, therefore, to add paragraph (iv) to Section 403(i)(2)(B) as follows: "(iv) 0.1 percentage points for each full 20 percent increment (up to a maximum of five such increments) by which the majority of recipient households in administrative regions of the state are not reachable by regularly scheduled commercial air service, automobile, train, or other surface transportation".

We believe that this proposal is in keeping with the consideration given to high density populations as proposed in the legislation. Our proposal is strengthened by the additional fact that most recipients served in the isolated rural areas of Alaska are Native Alaskans, with a subsistence life style and culture.

It is refreshing to see proposed legislation which would grant states some relief from the ever more punitive actions and requirements being promulgated by federal agencies.

Sincerely,

BILL SHEFFIELD,
Governor.

STATEMENT OF HON. THOMAS H. KEAN, GOVERNOR OF NEW JERSEY, ON BEHALF OF THE NATIONAL GOVERNORS' ASSOCIATION

Mr. Chairman, thank you for the opportunity to submit testimony to your Committee on behalf of the National Governors' Association, regarding the administration of the AFDC program and the problems with the current quality control system.

Four times since 1979, the Congress has adopted far-reaching changes in the AFDC Quality Control System. Three of these changes were made on appropriations bills and none of them has been the subject of careful and complete hearings. As the level of government charged with the administration of these complex needs-tested entitlement programs, the states very much appreciate this unique opportunity to present our concerns and recommendations. Errors are not a pleasant topic. They are, however, an unavoidable part of any program and we congratulate you for the courage to bring the issue out into the open where it belongs and where it can be addressed in a cooperative and constructive manner. I want to emphasize our desire to work with the Committee in crafting a legislative solution to this problem.

I also want to acknowledge the work of Mr. Matsui and to express our thanks for the quality control legislation which he has introduced. His bill represents the first comprehensive attempt to define how the Congress believes the quality control system should operate. The Governors commend him for his efforts.

While I will address this testimony to the quality control system itself, I want to emphasize that the quality control issue is but one of many concerns which Governors have with the federal income assistance system. The current system is an uncoordinated patchwork of complex, incomplete and often inefficient programs. It does not provide a needed national standard for assistance or eligibility and it is often unnecessarily costly to administer. While the states will continue to fulfill their roles within this system, it is also important to emphasize the need for basic change. The National Governors' Association has long supported the development of a national income security policy which should include an integrated program of assistance and the principle that the federal government should accept the primary responsibility for financing income security programs.

Such an approach would produce a more uniform program, help eliminate gaps in current coverage, reduce complexity and errors, and increase administrative efficiency. It would also more clearly recognize that the alleviation of poverty is a national concern which often exceeds the capacity of any single state.

We would urge that the Committee continue to devote its attention to basic reform at the same time that it addresses the administrative problems in the current system.

States and localities have a major financial interest in proper administration of the AFDC program. For federal fiscal year 1984 states are projected to expend close to $6.3 billion for AFDC benefits and $840 million for administration. Each error costs us state dollars that we can ill afford to expend. Equally important, as elected officials responsible for the administration of these programs, we are subject to regular oversight by the state legislatures and the press, and we are held accountable if a program is badly administered. The Governors are concerned, as are federal officials, that benefits be targeted toward those who need them most. Avoidable payments to ineligible persons and overpayments are an unacceptable waste of both state and federal resources.

States have made considerable progress in the reduction of errors in all of the needs-tested entitlement programs. Indeed, without the collection of any fiscal sanctions, states had reduced the AFDC error rate for overpayments and payments to ineligibles from 16.5 to 7.3 percent by March of 1982; the Food Stamp error rate for overpayments and payments to ineligibles from 16.0 to 8.2 percent by March of 1983; and the Medicaid eligibility error rate for overpayments and payments to ineligibles from 6.2 to an estimated 3.3 percent by October, 1982. We have done so even in the face of numerous program changes that have made these programs error prone and difficult to administer.

I want to state strongly that progress in reducing errors has occurred at the same time that the overall administrative burden on state and local government has increased by numerous federal statutory and regulatory changes. The AFDC and Medicaid programs have seen major policy changes in three of the last four years while the Food Stamp program has undergone major changes five times in the last seven years. Each federal statutory change requires a regulatory change, which requires changes in state legislation, regulations, program manuals and operational procedures. When, as is too often the case, AFDC and Medicaid program changes may require certain state operational responses which conflict with Food Stamp policies, or vice versa, the burden of managing the system becomes a nightmare.

The eligibility determination and benefit calculation process are very complex and encompass activities ranging from verification of income, to WIN referrals and to evaluation of special needs. State performance within this complex environment is generally very good on each of the major elements of the eligibility and benefit calculation process. However, by focusing on the cumulative impact of errors, rather than on the error rate in each of the separate elements of the process, the quality control system masks both the complexity of that process and the level of performance which is achieved. It also contributes to unreasonable expectations of performance.

With the single exception of earned income, AFDC quality control audits for October 1980-March 1981, the latest period for which data is available, find that each of the major eligibility and benefit steps is completed with a degree of accuracy that results in a payment error of one percent or less. For example, AFDC is available only when there is a minor child in the home. Moreover, benefits must be reduced when children in the home reach a certain age and are not in school. Errors in these eligibility factors produce erroneous payments of less than one-tenth of one percent. It shouid be recongnized, therefore, that the aggregate error rate is a sum of the small error rates for each factor of eligibilty. While we can strive for perfection, we cannot avoid all errors in all major elements.

The largest single cause of error from FY 1981 data appears to be related to the incorrect reporting of earned income. This accounts on average for about one-fourth to one-third of total AFDC errors. While this area requires constant attention, it appears that the AFDC system compares favorably to the Internal Revenue Service. The initial eligibility system in AFDC discovers over 90 percent of actual earned income. This compares to IRS estimates that 88 percent of total legal income in calendar 1981 was reported or discovered in the tax system.

In addition, not all errors discovered retrospectively by the quality control system could be determined through the same review process at the time of eligibility determination. Some errors which are ultimately detectable may not be detectable at the time of eligibility determination since comprehensive verification may be available only at some later date. A good example of this is the detection of earnings through a computer match. In many states, both the eligibility and the quality control reviewer will use this matching tool. However, the data on earnings at the time of application will not be available in the social security or employment security files until several months after the initial decision must be made. While a quality control review conducted months after this initial decision may have access to the needed information, it is not available to the eligibility worker.

Finally, state performance in AFDC is not significantly different than federal performance in SSI's state supplement program. The national error rate for the latest period published for AFDC, October 1981-March 1982, was 7.3 percent while the rate for the federal administration of the much simpler state SSI supplements, for the 17 states with them, was 6.0 percent for the October 1982-March 1983 period. This difference in rates can be explained primarily by the fact that the SSI program has eligibility and payment rules which are more easily administered. Some examples are that SSI:

(1) Has only one eligibility determination based upon countable income, but AFDC has an eligibility determination based upon both gross and countable income;

(2) Has a much more stable population, i.e., the elderly and disabled, while AFDC families tend to be less stable because many are tangentially attached to the labor force; and

(3) Does not vary benefits based upon utility and housing costs as well as other elements of a family's housing needs, as does the AFDC program.

THE CURRENT CRISIS

Unless the Congress acts quickly to correct the problems in the current quality control system and to establish a more reasonable sanction policy, the states face AFDC sanctions which may total almost $1 billion over the next 5 years. Moreover, it appears that sanctions in the Food Stamps and Medicaid programs together could be more than $500 million over the same 5 years. Should such sanctions be imposed, three facts are clear:

The sanctions will bear little or no relationship to the current administration of the program or to the need for further corrective actions; they will serve merely as penalties for prior period performance, unrelated to the current level of state performance.

The resulting shift of costs from federal to state governments will have an immediate and significant impact on the ability of the states to finance human service programs.

States will be forced to again increase administrative costs with little or no evidence that such expenditures will be cost-effective.

In addition to the above unintended, yet unreasonable, impacts, it is our view that the shift of unavoidable costs to the states may force them into costly and time-consuming litigation designed to avoid these penalties. This may reduce the administrative effort needed to reduce errors further, with the ultimate losers being the poor and the taxpayers.

We believe that such a result is unacceptable and that it can and should be avoided.

NGA RECOMMENDATIONS: PERFORMANCE TARGETS

Problem.—We believe the current 3 percent error rate tolerance for the AFDC program is not reasonable. It has no basis in fact. As of March 1982 in the AFDC program, only one state had been able to achieve and maintain such a performance level for three consecutive reporting periods.

In setting performance standards the Congress and the public must recognize that determining a family's eligibility for a needs-tested program is a very complex and intricate process. Over 25 separate factors in the AFDC program related to eligibility and benefit calculation must be considered in each case, and some cases may require attention to over 35 factors. For example, an eligibility worker may have to consider the age of the children, whereabouts of the absent parent, work registration requirements, child support assignment, real property, bank accounts, value of cars, amounts of earned and unearned income—including wages, pensions, social security, unemployment compensation and other contributions—special needs other than shelter, shelter needs, home heating fuel needs, work expenses and child care expenses, and other factors.

In addition to attention to these eligibility factors, the eligibility worker is expected to provide referral services, and informal counseling as well as numerous clerical and record keeping duties. Often the same worker must consider the myriad of other eligibility and benefit calculation factors in the Food Stamp and Medicaid programs as well.

Moreover, a state's performance targets are not adjusted to reflect its caseload and/or different program characteristics. Factors such as the percentage of cases with earnings, the size of the caseload, as well as the complexity of the state's program (e.g., those states which pay benefits to unemployed two-parent families) are not now considered.

Solution.—We believe that there are alternative approaches to the establishment of error rate performance targets which might be considered. Mr. Matsui provided one in his bill. Others might also be considered. For example, one could establish separate measures and targets for major portions of the eligibility and benefit calculation process. Such an approach would establish discrete targets for each segment of the process which could be related to the costs/benefits of available administrative measures. States which failed to meet some agreed upon proportion of their goals would be subject to a fiscal sanction.

Possible categories for separate targets might include: Resources; needs requirements; other Federal benefits; other State benefits; child support; other income; other errors; categorical eligibility; program requirements (WIN, etc.); and earned income.

Alternatively, targets could be based upon achievable goals as determined by actual peer (i.e., other states) performance. The target could be the national average error rate for some base period. A variation on this target rate could provide a state with the option to reduce its rate at the national average rate of reduction (computed over some period of time) or to the national average error rate for the base period, whichever is higher. For states at or below the national average, possibly a different reduction rate could be computed based upon an analysis of the cost-effectiveness of further error reductions.

Finally, as in the case of Mr. Matsui's bill, performance targets should be adjusted to reflect different state caseload and program characteristics. One possibility is the establishment of an index of complexity of state programs and volatility of the caseload. Possible areas of adjustment could include:

Operation of an unemployed parent program;
Concentration of urban population; and
Concentration of cases with earned income.

COMPUTING ERROR RATES FOR PURPOSES OF FISCAL SANCTIONS

Problem.—The current measurement system has three basic problems: (1) Technical errors are counted; (2) Unavoidable client-caused errors are counted; and (3) actual state errors may be overstated.

At the present time, the AFDC Quality Control System measures and sanctions so called "technical errors". These errors relate to administrative requirements such as WIN registration and the assignment of social security numbers to all welfare recipients. Correcting these errors will make the client eligible for the program, not eliminate the client from the rolls.

While these requirements may produce longer-term savings through increased efficiency of training or support programs, the short term investment of resources for corrective action does not produce program savings.

Client-caused errors must continue to be measured. However, we should recognize that states have limited control over these client-caused errors. While the federal government should hold states to reasonable performance requirements in reducing client-caused errors, fiscal sanctions for these errors do not appear justified.

Error rates are computed based on samples of cases, and therefore the rates are statistical estimates. The true error rate therefore is not known. Sanctions are now based on the midpoint of the estimate, rather than the lower end of the statistical range. As a result, states may be penalized for more errors than are actually committed.

Solution.—Although stating these problems suggests the solutions, I wish to identify the possible solutions clearly.

Technical errors should be excluded in determining ineligible or incorrect payments for purposes of fiscal sanctions.

Special attention should be given to client-caused errors so that tolerance levels reflect the fact that states cannot reasonably be expected to eliminate all such errors, or these errors should be excluded in determining ineligible or incorrect payments for purposes of fiscal sanctions.

The "official error rate" for purposes of fiscal sanctions should be the lower end of the statistical range in which a state's true error could lie.

I would like to note that Mr. Matsui's bill incorporates our recommendations for technical errors and use of the lower end of the statistical range of the error rate estimate.

TIMELINESS OF FEDERAL ERROR RATE DATA

Problem.—The federal delay in releasing error rate data makes it extremely difficult for the states to plan and implement effective, responsible corrective actions. In all three programs, the federal data lag—by at least a year—behind the states' own measurement of their performance. For example, HHS did not notify states of their final AFDC error rates for FY 1981 until March 1983, one and a half years later. Further, the federal delay in reporting quality control findings is unreasonable given the reporting requirements that states must meet. While states can begin action based on their own findings, the federal review data is vital in order to make final decisions on the type of action needed.

Solution.—We believe Congress should place time limits upon the federal re-review, similar to the requirements in Mr. Matsui's bill, so that final error rate data is provided in a timely manner for corrective actions. This is an extremely critical point for managing the system. If quality control is to be a management tool, then managers must know what errors are made soon after a period is finished. Otherwise, the wrong corrective actions may be taken.

COST-EFFECTIVENESS OF CORRECTIVE ACTIONS

Problem.—The current Quality Control System ignores the cost-effectiveness of corrective actions when determining whether a state should be provided relief from fiscal sanctions. States may be provided waivers of fiscal sanctions in the AFDC, Food Stamps and Medicaid programs when their error rates are above the performance targets, but cost effectiveness of corrective actions is not a criterion used for granting such waivers.

Solution.—We suggest that Congress require the Department of Health and Human Services to consider the cost-effectiveness of corrective actions when determining whether a state's waiver request is approvable. States should not be forced to spend more on corrective actions than they will save in reduced erroneous payments.

FEDERAL REGIONAL QUALITY CONTROL PROCEDURES

Problem.—The quality of federal reviews of the state sample of cases differs among the various federal regions and results in disparities in the way states are treated. These differences are the result of varying expertise of staff and differing policy interpretations of regulations.

Solution.—The solution to this problem lies with better management of the federal system. Possibly Congress should require the Department of Health and Human Services to provide a report to the appropriate committees on the nature of the problems and the steps that will be taken to solve them.

CONCLUSION

At the heart of the problems discussed above is a shift by the Federal Government away from the original purpose of the quality control systems. While administration and congressional policy makers continue to insist that the quality control systems are management tools, the focus on error rate sanctions suggest alternative purposes have higher priority. That is, it appears that the purpose of sanctions has become federal budget control and reduction of federally supported caseloads by shifting costs to states. The changing purpose of the quality control system can have a negative impact upon state fiscal conditions, state operations, and upon recipients of aid.

Today the "error rate", as measured by the federal quality control system, is the sole federal tool for judging state performance. The sanctions associated with this measure are intended to assure compliance with federal mandates and a high quality of administrative implementation. While, as Governors, we accept the need to hold program administrators accountable for the quality of their work, the performance criteria should be comprehensive.

The cumulative effect of solving the numerous problems identified above should reshape the system to provide the management tool we need. States, given a management perspective to the system, will be able to concentrate their administrative dollars on corrective actions most appropriate for their problems.

At the same time that the immediate problems are solved, we suggest that Congress give serious consideration to addressing state administrative performance beyond "error rates". The Department of Health and Human Services has recently published a profile of state performance in the AFDC program for 1981. In that document the cost of state administration and the quality of service to AFDC applicants and recipients are analyzed. Perhaps Congress should require the Department to further develop such measures so that an entire state program can be evaluated.

The quality control issue presents a unique challenge to the intergovernmental system. The federal government must recognize the legitimate role of the states while striving to maintain accountability for the expenditure of federal tax dollars. We are convinced that such a balance is possible.

Once again we commend the subcommittee for holding this hearing on quality control and for providing the National Governors' Association the opportunity to provide testimony.

We also wish to again congratulate Congressman Matsui for his foresight in addressing these issues in the legislation which he introduced recently. We believe that his suggestions should be further pursued.

Finally, the testimony you heard on October 3rd, combined with the staff work already done on behalf of the Committee, provide an excellent framework for a permanent solution to this persistent issue. The next few months will be critical and we look forward to working closely with you to craft a workable solution.

Thank you.

State of Oregon,
Department of Human Resources,
Adult and Family Services Division,
Salem, OR, October 11, 1984.

Hon. Harold Ford,
Chairman, Subcommittee on Public Assistance and Unemployment Compensation, Committee on Ways and Means, House of Representatives, Longworth House Office Building, Washington, DC.

Dear Congressman Ford: I was delighted to learn of your interest and concern about the fairness and accuracy of the current federal Quality Control and fiscal sanctions policies. I want to assure you that you are correct in concluding that recipients will surely bear the adverse effect of Quality Control fiscal penalties against states.

For your consideration, I am providing a paper recently prepared by my staff which relates to Quality Control penalties in the AFDC, Medicaid and Food Stamp programs (enclosed). We would like to see it included in the record of the October 3, 1984, hearing on the AFDC Quality Control Program.

I would also cite the United States Comptroller General's "Report to the Chairman, Committee on Finance of the U.S. Senate" (HRD 80-80) which recommends discontinuation of any application of fiscal sanctions against states on AFDC Quality Control error rates. That report recognizes that the effectiveness of the AFDC Program is a joint responsibility of both state and federal governments.

I hope you find these comments helpful in performing your review of the Quality Control Program. I know the enclosed paper reflects not only the perspective of Oregon but also the concerns of other states.

Sincerely,

KEITH PUTMAN,
Assistant Director, Human Resources,
Administrator of Adult and Family Services.

Enclosure.

COMMENTS ON QUALITY CONTROL PENALTIES IN THE AFDC, MEDICAID AND FOOD STAMP PROGRAMS

I. ISSUE

Under current federal legislation, many states are faced with severe fiscal penalties due to Quality Control (QC) errors in the AFDC Program, the Medicaid Program and the Food Stamp Program. Target levels in all three programs have been established at unreasonably low levels in light of the complexity of federal regulations in all three programs and the state's limited financial ability to prevent client-caused errors.

II. DISCUSSION

Current QC regulations are unrealistic for the following reasons:

1. The eligibility process is complex due to the myriad of federal regulations. With increasing federal regulations over the last few years, it has become even more difficult to reduce errors in these programs (the more rules you have, the more difficult it becomes to enforce them).

2. QC regulations hold the states accountable for all client-caused errors in addition to agency-caused errors. It is virtually impossible for states to substantially reduce client-caused errors from their current levels. Further, when client errors are subsequently found and an overpayment is recouped, the QC error is not eliminated and the state remains liable for a fiscal penalty. Also, federal regulations preclude states from imposing any significant penalties upon clients who cheat or who are fraudulent. Thus, there is no incentive for clients themselves to report changes in circumstances to avoid payment errors.

3. The QC regulations process severely penalizes states when federal reviewers find an error that the state review process missed. This factor significantly inflates the state error rate through the use of an arbitrary "regression formula". This makes it almost impossible for some states to achieve the tolerance levels imposed under the current law.

4. The federal review process which boosts a state's error rate is based upon a fraction of the number of cases reviewed by the state. This makes the whole process statistically less accurate and unreliable for imposing penalties on states.

5. State QC reviewers and state eligibility workers are at a significant disadvantage in attempting to find and correct errors. The federal QC reviewers have much more time to look for errors in a case record than the eligibility workers have in determining whether clients are eligible for assistance and the appropriate benefit levels. Also, state QC reviewers must complete their reviews within very short federally-imposed deadlines. Federal reviewers do not labor under similar time constraints. Local office eligibility staff are also required to complete their eligibility determinations in a relatively short period of time. States must draw a balance between having accurate eligibility determinations and providing needy clients with benefits on a timely basis. Federal QC reviewers, on the other hand, have a great deal more time to review the case record well after the fact. Under these circumstances, it is inevitable that the federal reviewers will find more errors than those found by the state reviewers and state eligibility staff.

6. States are held accountable for "technical" errors that have little bearing on whether clients are eligible for program benefits. Yet, these carry as much weight as real errors in the eligibility determination process for QC purposes. Examples of these include errors caused by failure to report a Social Security number or errors caused by failure to have the client sign a document proving registration with the WIN Program. These errors count as much as "true errors" even though, when corrected, would not affect the client's eligibility or benefit level.

7. In all three federal programs for which states are liable for QC errors, states have not been able to obtain waivers from federal regulations that are themselves barriers to reducing QC errors. Thus, the states find themselves in a "catch 22" situation. They are faced with severe financial penalties if they are not able to reduce

QC errors and yet, at the same time, are not provided with the administrative flexibility to do so. An example of this is in the Food Stamp Program where Oregon is facing severe QC penalties. On several occasions the state has requested waivers from the federal Food and Nutrition Service (FNS) to improve the effectiveness of the state's client reporting process. The state's reasons for seeking the waivers was to reduce client-caused QC errors. These waivers were not approved.

8. The threat of QC penalties results in the federal programs being less efficient and equitable than they could be. For example, federal regulations allow states the option of counting child support payments, which the absent parent pays directly to the AFDC recipient, as either income to the recipient or as a liability that the recipient owes the child support collection agency. Oregon adopted the income offset option because it is a more efficient and equitable way to operate the AFDC Program. The federal Office of Family Assistance concurs that this is the best approach. States that have adopted the other (payment) approach find it costly and not very effective. However, states that have adopted this option do not incur QC errors if the child support collection agency does not collect the payment from the client. Using the income offset option allows the state to deduct the child support payment from the AFDC grant immediately as income when it is reported timely, or to recoup it as an overpayment when not reported in a timely manner. However, a state risks QC errors if it uses this approach. Oregon had three such QC errors in the latest six-month reporting period. The state may be forced to convert to the less efficient payment approach just to avoid the QC penalties. This is unfortunate because it will result in less child support money being used to reduce the need for public assistance.

9. The threat of penalties inhibits states from adopting measures to target expenditures to the most needy clients when revenues are scarce. Across-the-board reductions are not error-prone, whereas additional eligibility requirements to target benefits to the most needy tend to generate more errors.

10. Federal QC regulations do not allow overpayment recoveries to reduce the overpayment error rates that are cited. Oregon recovers about 38 percent of all overpayments identified through the QC process, periodic redeterminations, computer matches, etc. These recoveries reduce the net error in the AFDC Program, but no allowance for them is given to the states when fiscal penalties are levied.

11. The federal agencies' lengthy delay in their report of QC findings is unreasonable in light of the reporting requirements put on the states. Federal staff do not report current data to the states. The data is always reported one and one-half years late (three reporting periods behind). As a result, states are often not aware that they are facing a QC penalty situation until well after the fact. This happened recently to Oregon in the Food Stamp Program. In August 1983, FNS sent Oregon a formal warning of a $1.7 million penalty as a result of our QC performance in the September 1981 through March 1982 period. July 1983 was the first time that the state was made aware of its final error rate and that it would be penalty liable. It is extremely difficult for states to take responsible corrective action for QC error rates when the Federal agencies are so far behind in reporting error rates back to the states.

12. Error rate targets and penalties in the Food Stamp Program will be self-defeating if the real goal is to reduce actual overpayments in the program. The target level established for 1985 is set at such a low level that most states will be penalized and, as a result, they will end up financing a greater percentage of the costs to administer the Food Stamp Program. This will occur as the Federal government gradually withdraws its financial support for administering the program under the cloak of Quality Control penalties. As states are forced to absorb a greater share of the administrative costs, they will be forced to cut back on food stamp administrative expenditures. The resulting cutbacks in staffing will cause food stamp error rates to soar and QC penalties to increase. Some states face the possibility of administering the program at 100 percent state expense. At that point, states may refuse to administer the Food Stamp Program.

The QC Program has evolved from a system that was designed to help states avoid errors and administer their programs more efficiently into a program whereby savings for the federal budget are achieved by transferring funds back to the Federal government under the guise of QC penalties. Savings of this type would accrue to the Federal government far more efficiently and certainly in a more straight-forward fashion by a direct reduction in the Federal matching rate for these programs. The greatest travesty is that the "QC fiscal penalty" method for realizing Federal budget savings at the states' expense will occur under the misleading public image that these programs are fraught with fraud and abuse. This not only does great harm to the Federal and State partnership in these programs but it also does a disservice to our clients, the vast majority of whom are honest and in need. Finally, there is no net reduction in cost to the taxpayer.

III. RECOMMENDATION

The State of Oregon, along with other states in the Western Region, is undertaking a concerted effort to reduce errors in all three programs within current fiscal and staffing limitations. We will reduce errors in the programs; however, we can only hope to meet QC targets if they are established on a reasonable basis and if the procedures themselves are realistic.

Therefore, we recommend that a moratorium be placed on QC penalties for a period of time to allow states to work with the Federal agencies to come up with reasonable QC regulations. This moratorium was recommended by the Conference Committee which approved the Appropriation Bill for the Department of Health and Human Services for Fiscal Year 1984. A copy of this recommendation is attached. Also attached is proposed legislation which would place a moratorium on QC penalties. This legislation is sponsored by the National Council of State Public Welfare Administrators.

Up to the present time, the Department of Health and Human Services and the Department of Agriculture have not considered the recommendations of the Conference Committee to make the QC process workable and to suspend penalties until this occurs. Instead, both federal agencies seem to have strengthened their resolve to exact stiff QC fiscal penalties from states under current QC regulations.

TITLE II—DEPARTMENT OF HEALTH AND HUMAN SERVICES

DEPARTMENTAL OVERVIEW

The Committee has provided $64,822,981,000 for the Department of Health and Human Services for fiscal 1984. This is $3,693,418,000 more than the administration request and $2,069,206,000 more than the House allowance. The recommendation also is $1,789,939,000 more than the fiscal 1983 appropriation.

In addition, the committee provides the Department with $7,772,000,000 in subsequent year advances primarily related to medicaid. The recommendation also includes $4,765,489,000 in trust fund allocations for various programs.

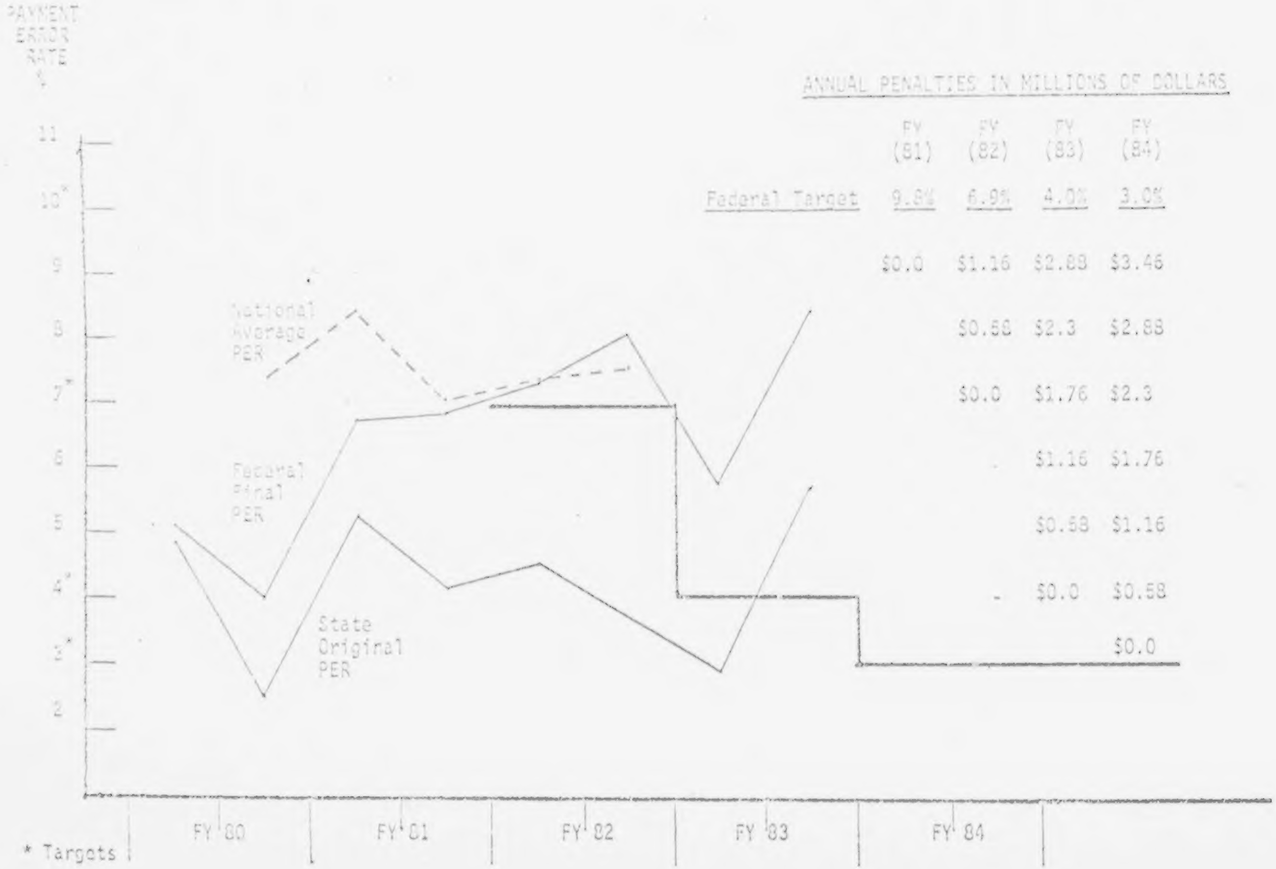
Medicaid, AFDC Error Rates

The Committee is concerned that the current quality control system, upon which fiscal sanctions are based in both the AFDC and medicaid programs, has serious deficiencies. Specifically, the Committee is concerned about: (1) the reliability of current data in error rates; (2) the timeliness of the current quality control systems in providing information for corrective action; (3) the relevance of geographic and socioeconomic differences among the States to error rates; (4) the inclusion of technical errors and client-caused errors in error rate determinations; (5) the fairness of a uniform national tolerance rate for errors; and (6) the use of various statistical measures and assumptions for measuring error rates. Moreover, the Committee emphasizes its concern that the Department has, in the past, implemented regulations in this area in such a way as to deny States an adequate input into the regulatory process. For example, new Medicaid regulations were issued June 24, 1983 as interim final rules without the benefit of prior public input. Similarly, new rules regarding the AFDC program, which are required by October, have not yet been made available in proposed form to the States for comment. This process, in the Committee's opinion, may be particularly inappropriate when applied to processes which would deny funds to the States.

The Committee directs that the Department undertake a thorough study of these and related concerns and, in doing so, coordinate its activities with the Department of Agriculture with respect to its quality control process in the Food Stamp Program and allow for the fullest possible input from the States. Further, the Committee directs that the Department report back to this Committee, prior to fiscal year 1986 hearings, on the results of this study, with specific recommendations for modifying the quality control systems to address each of the above concerns. Finally, the Committee is of the opinion that until the Department completes the study and reports back to this Committee, the imposition of fiscal sanctions in the AFDC and Medicaid programs may be inappropriate and, therefore, the Secretary should consider suspension of the fiscal sanctions in both the AFDC and Medicaid programs.

(Excerpt from the Conference Committee Report).

OREGON ADC QUALITY CONTROL PAYMENT ERROR RATES (PER)



ANNUAL PENALTIES IN MILLIONS OF DOLLARS

	FY (81)	FY (82)	FY (83)	FY (84)
Federal Target	9.8%	6.9%	4.0%	3.0%
	$0.0	$1.16	$2.88	$3.46
		$0.58	$2.3	$2.88
		$0.0	$1.76	$2.3
		.	$1.16	$1.76
			$0.58	$1.16
		-	$0.0	$0.58
				$0.0

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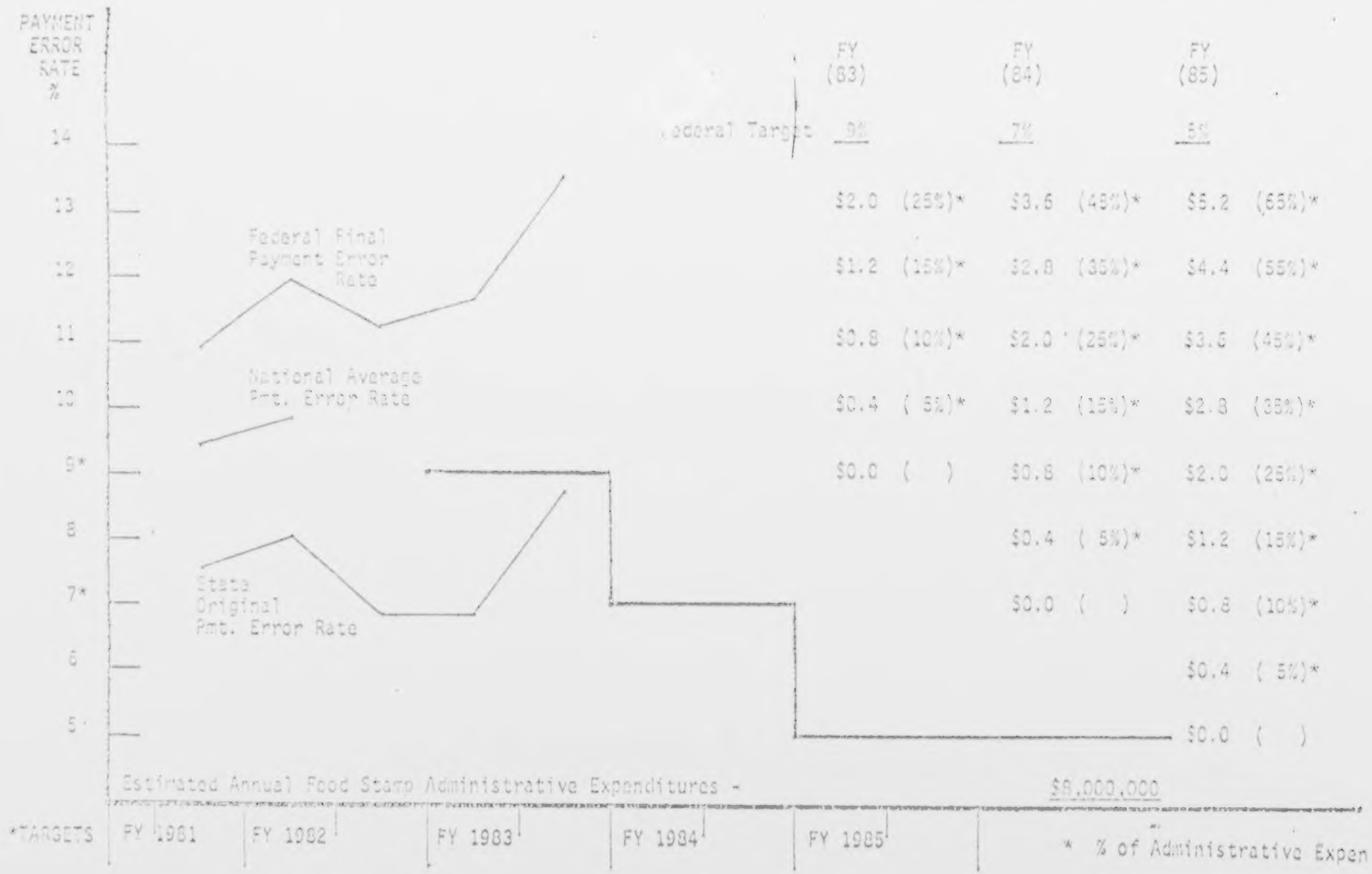
OREGON FOOD STAMPS QUALITY CONTROL ERROR RATES



Annual Penalties in Millions of Dollars

	FY (83)	FY (84)	FY (85)
Federal Target	9%	7%	5%
	$2.0 (25%)*	$3.6 (45%)*	$5.2 (65%)*
	$1.2 (15%)*	$2.8 (35%)*	$4.4 (55%)*
	$0.8 (10%)*	$2.0 (25%)*	$3.6 (45%)*
	$0.4 (5%)*	$1.2 (15%)*	$2.8 (35%)*
	$0.0 ( )	$0.8 (10%)*	$2.0 (25%)*
		$0.4 (5%)*	$1.2 (15%)*
		$0.0 ( )	$0.8 (10%)*
			$0.4 (5%)*
			$0.0 ( )

Estimated Annual Food Stamp Administrative Expenditures - $8,000,000

* % of Administrative Expen

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A BILL To provide for Uniform Quality Control Systems for the medicaid, Aid to Families with Dependent Children and Food Stamp Programs and suspension of sanctions and withholdings based on error rates in the State administration of these Programs otherwise applicable to the States pending the creation of such Systems[1]

Be it enacted by the Senate and the House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Uniform Quality Control Systems Act of 1983."

FINDINGS AND PURPOSE

SEC. 2. (a) The Congress finds that:

(1) There are currently three separate and inconsistent Quality Control Systems mandated by the Federal Government to measure the payment error rates by the States in their administration of the Medicaid, Aid to Families with Dependent Children (AFDC) and Food Stamp Programs;

(2) There are significant inconsistencies in how these three Quality Control Systems operate State by State;

(3) The purposes and uses of Quality Control Systems have become confused;

(4) The Federal Government has levied a variety of sanctions upon the several States based on these inconsistent and unreliable Quality Control Systems; and

(5) The issue of the purpose and use of Quality Control Systems and the manner and extent of sanctions to be levied on the States by the Federal Government in reliance upon such Systems must be resolved to assure fair treatment of the States.

(b) It is the purpose of this Act to provide by statute for uniform Quality Control Systems for the Medicaid, AFDC, and Food Stamp Programs, such Systems to be developed jointly by the Secretary of Health and Human Services and the Secretary of Agriculture in close consultation with the States and, pending establishment of such Systems as provided herein, for the suspension of all sanctions and withholdings otherwise authorized.

JOINT RECOMMENDATIONS

SEC. 3. (a) The Secretary of Health and Human Services and the Secretary of Agriculture shall jointly develop recommendations for the creation of Uniform Quality Systems for the Medicaid, AFDC and Food Stamp Programs. These recommendations should address, *inter alia,*

(1) current measurements of effective and efficient management in these three programs;

(2) reliability of current data on error rates;

(3) timeliness of current Quality Control Systems in providing information for corrective action;

(4) the causes of errors;

(5) the relevance of geographic, socioeconomic, and programmatic differences among the States to error rates;

(6) the fairness of a uniform national tolerance rate for errors;

(7) the use of error rate sanctions as a management tool;

(8) the use of various statistical measures and assumptions for measuring error rates.

(b) Not later than eighteen months after the enactment of this Act, the Secretary of Health and Human Services and the Secretary of Agriculture, but only after close consulation with the States, shall present to the Congress for its approval their recommendations regarding reliable, fair and uniform Quality Control Systems for the Medicard, AFDC, and Food Stamp Programs.

SUSPENSION OF SANCTIONS AND WITHHOLDINGS

SEC. 4. Pending approval by the Congress of the Joint Recommendations provided for in Sec. 3 herein or of such other legislative act establishing uniform Quality Control Systems for the Medicaid, AFDC and Food Stamp Programs, no action shall be taken to enforce or collect the sanctions, withholdings or other financial penalties provided for by Section 1903(u)(1)(A) of the Social Security Act, 42 U.S.C. 1396 (b)(u)(1)(A); Section 403(i)(1)(A) of the Social Security Act, 42 U.S.C. 603(i)(1)(A); P.L. 97-248 Sec. 156(e); 45 C.F.R. 205.41-42 C.F.R. 431.801-02; and The Food Stamp Act Amendments of 1980 and 1982, 7 U.S.C. subsection 2011-2027 (and if any such sanction, withholding or penalty has already been enforced or collected, on or after April 1, 1983, and before the date of the enactment of this Act, the Secretary of Health and Human Services (or the Secretary of Agriculture for actions involving the Food Stamp Program) shall pay or refund the amount of such sanction, withholding or penalty to the State immediately upon enactment of this Act).

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[1] Proposed by the National Council of State Public Welfare Administration.

STATEMENT OF DENNIS B. HART, DIRECTOR, SACRAMENTO COUNTY DEPARTMENT OF SOCIAL WELFARE

The Honorable Congressman Harold Ford and Subcommittee Members: I am the Director of a large county welfare department in California and have been actively involved for a number of years with the Quality Control system for AFDC. I am submitting testimony in support of Congressman Matsui's proposed legislation to improve quality control standards and procedures under the AFDC Program and to provide for studies to assist in the further improvement of such standards and procedures.

I am very interested in the quality control system and believe there is a need to monitor state performance and hold states accountable for excessive eligibility errors. The current quality control system, however, is riddled with problems which lead to inequities between states, highly questionable findings regarding state performance, and the potential for large fiscal sanctions passed on to local governments which could virtually shut down the program.

Specific areas of major concern with the existing system include the following:

1. *Technical or Procedural Errors* which do not result in misspent dollars are included when calculating the error rate on which penalties are based. AFDC quality control identifies five kinds of technical errors: (a) Whether Social Security numbers have been obtained for all family members; (b) Whether child support rights have been officially assigned to the welfare agency; (c) Whether the parent has formally agreed with efforts to collect child support; (d) Whether an employable recipient has registered with a Work Incentive program; and (e) Whether the client has filed monthly reports with the welfare office.

Together, these account for more than one percentage (1 percent) point of the national AFDC payment error rate; and for some states this may mean the difference between getting sanctioned and not getting sanctioned.

2. *Client Caused Errors* are included in calculating the error rate even though client errors are harder to control and occur despite measures taken to detect or prevent them. Around one-half of the errors identified by quality control are attributable to clients. These involve situations where clients, whether intentionally or not, fail to provide the welfare agency with accurate or complete information on their circumstances. Although practices such as periodic client reporting, computer file matches, and client and worker education have helped, even the best run programs fail to catch a large portion of client mistakes.

3. *Socio-Economic Factors* which influence error rates are not considered when establishing tolerance levels. Studies have shown that local agencies with large urban caseloads face more difficult problems in controlling payment error, even in the presence of comparable administrative resources. Since a large percentage of errors, both client-cause and agency-cause, are related to the treatment of income, states with a higher percentage of income cases would be expected to have a higher incidence of error. In California, the need standards are relatively high and therefore a large percentage of employed persons meet the income test and are eligible for assistance.

4. *Program Variations* which exist between states are not considered when establishing payment error tolerance levels. Federal policy, on the one hand, encourages states to supplement the basic AFDC amd Medicaid Programs to help the truly needy while, on the other hand, making no adjustments in the quality control process to accommodate the increased administrative complexity experienced by those states that respond to the encouragement. Options that increase complexity include: (a) Extending AFDC to children in families where both parents are unemployed; (b) Providing work programs that help AFDC recipients obtain paid employment; and (c) Making Medicaid available to the medically needy.

5. *The Current Quality Control Statistical Methods* misrepresent a state's error rate. Quality control only determines the probable range within which a state's

error rate falls—not the actual error rate itself. This happens because a sample of cases, rather than the entire caseload, is used to estimate the extent of error. Consequently, a state may be penalized for errors it has not committed because its midpoint error rate exceeds the Federal tolerance level even though the lower end of its error rate range falls below the tolerance level.

6. *The Use of Small Samples Overstates the Extent of Error* because a single payment error can have a disproportionate impact on the measured error rate. This problem is compounded by the Federal re-review process which depends on a subsample of usually around ⅐ of the state's original sample. If discrepancies are found between a state's original findings and the Federal re-review process, a regression formula is applied to the original state findings which inflates the value of errors found.

7. *The Current Quality Control System does not take into account* disparities that exist in Federal management of the quality control program. Differences in policy interpretations can be illustrated by the opposing positions taken by Federal Region IX and Federal Region X of the Department of Health and Human Services with respect to the treatment of loans under the AFDC Program. California, with the approval of Region IX staff, does not count loans as income if repayment is made by the client. The Region X program and quality control staff, however, would not allow Oregon to adopt the same policy.

States are also often the victims of ambiguous Federal policies which lend themselves to subjective judgment and, as such, numerous interpretations of what is a correct result. For example, 45 CFR 233.33 as well as Sections 3050 of the Quality Control Manual require Eligibility Workers to use the "best estimate" of income for prospective budgeting purposes in AFDC. The Eligibility Workers, State Quality Control reviewers, and Federal reviewers may each interpret this differently which increases the likelihood that an error will be cited.

8. *Data Developed from Quality Control Reviews* are not available to states in a timely manner. The Federal delay in releasing error rates makes it extremely difficult for the states to plan and implement effective, responsible corrective action. Currently, Federal data lags by at least a year behind the state's own measurement of performance.

9. *The Current System Allows Inequitable Treatment of Good and Bad Performers.* A state with a relatively low error rate, or a low error rate that increases from one measurement period to the next can face a penalty, while another state with a much higher error rate avoids a sanction because its error rate has been declining. For the period October, 1980, through September, 1981, 42 states had error rate targets higher than California's error rate. Alaska, with an 18.1 percent error rate was not threatened with a sanction while California with an error rate of 6.8% was notified of a potential sanction of $35,067,000.

10. *Widespread Fiscal Sanctions Will Result in Reducing Administrative Effort* and curtailing benefits and service to recipients. Many states can only absorb error rate penalties by reducing staff and other administrative costs. This further impairs their ability to control errors, thereby subjecting them to even larger penalties in later periods. Some states face the prospect of absorbing fiscal sanctions by dropping or reducing benefits or services they now provide. Given the size of penalties and the precarious fiscal situation of many states, benefit and service reductions may be the only choice available.

Congressman Matsui's proposed legislation addresses many of the problems I have outlined to you. The bill establishes a firm, national quality control policy for AFDC and provides a method for evaluating states' actions to reduce errors that takes into account various levels of case complexity, and other factors that influence accurate eligibility determinations.

Elements of this legislation that I strongly support include:

1. Establishes a floor of 4 percent (4%) payment error tolerance level;
2. Increases the tolerance level for states operating an Unemployed Parent Program, having a higher percentage of income cases in their caseload than the national average, and having a higher population density than the national average;
3. Provides for the use of the lower limit as opposed to the midpoint when determining a state's error rate;
4. Removes from the error rate technical and procedural errors which have no fiscal impact;
5. Provides for reduction in sanctioned amounts for the Federal share of overpayments that have been collected;
6. Provides for the use of sanction funds for corrective action;
7. Provides for an incentive payment if states perform below the tolerance level;
8. Provides for a study of client-caused errors and the sampling methodology;

9. Broadens the appeal process to allow for factors which are beyond a state's control;

I believe this proposed legislation is critical in the elimination of major problems in the existing quality control system; and I therefore urge for your support.

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